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

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

Annual Report 2014

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
6118

EXECUTIVE DIRECTORS
Mr. Ho Kwok Keung, Mars *(Chairman)*
Mr. Ho Kin Hung
Mr. Chen Yuewu
Madam Zhou Ning

NON-EXECUTIVE DIRECTORS
Mr. Enzo Barazetti
Madam Ji Lingling

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Raco Ivan Jordanov
(alias Racho Jordanov)

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

REMUNERATION COMMITTEE
Madam Chiu Hoi Shan *(Chairlady)*
Mr. Cheung Lap Kei
Mr. Enzo Barazetti

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. Enzo Barazetti
Madam Ji Lingling

COMPANY SECRETARY
Mr. Chen Wai Chung, Edmund *HKICPA*

AUTHORISED REPRESENTATIVES
(for the purpose of the Listing Rules)
Madam Zhou Ning
Mr. Chen Wai Chung, Edmund

PRINCIPAL BANKERS
Bank of China
Bank of East Asia
China Merchants Bank

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
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No. 26 Chaowai Street
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISOR AS TO HONG KONG LAW

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

AUDITOR

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

COMPLIANCE ADVISER

Haitong International Capital Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Codan 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 22
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

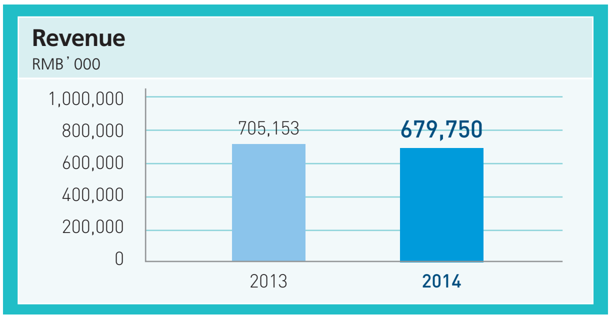
www.austar.com.hk

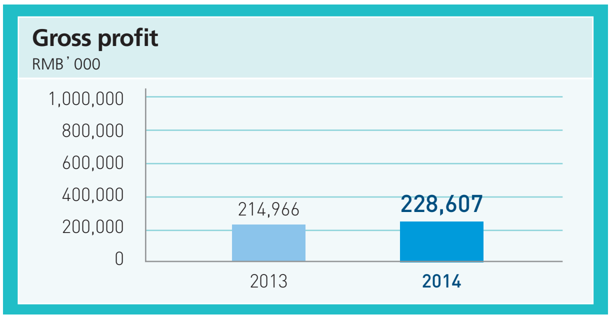
FINANCIAL HIGHLIGHTS

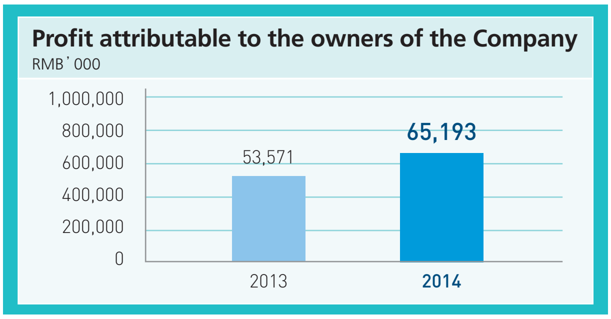
	2014 **RMB'000**	2013 RMB'000
Revenue	**679,750**	705,153
Gross profit	**228,607**	214,966
Profit before income tax	**87,825**	76,653
Profit attributable to the owners of the Company	**65,193**	53,571
Total assets	**869,390**	606,853
Net assets	**549,056**	128,375
Gross profit margin	**33.6%**	30.5%
Net profit margin	**9.6%**	7.6%
Current ratio	**2.6**	1.2
Gearing ratio	**6.4%**	15.6%
Net debt to equity ratio	**Net Cash**	Net Cash
Basic earnings per share (RMB) (Note 1)	**0.17**	0.14
Diluted earnings per share (RMB)	**0.17**	0.14
Proposed final dividend per share	**HK$0.05**	N/A

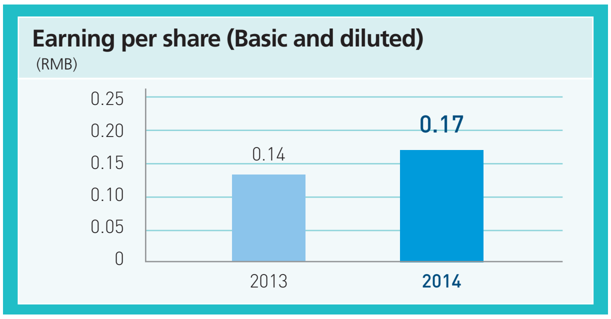
Note:

1. The calculation of earnings per share is based on the profit attributable to the owners of the Company for each of the year ended 31 December 2014 and 2013 and the weighted average number of shares during that year.



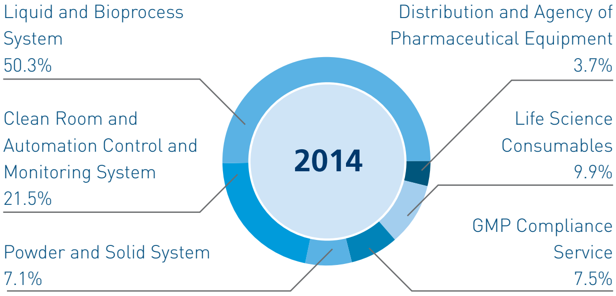


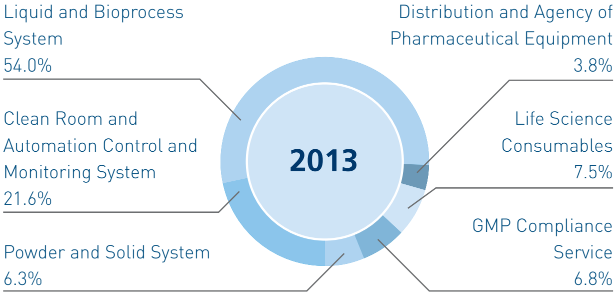




REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December **2014** **RMB'000**	 2013 RMB'000
Liquid and Bioprocess System	**342,063**	380,997
Clean Room and Automation Control and Monitoring System	**146,163**	152,545
Powder and Solid System	**48,406**	44,413
GMP Compliance Service	**50,810**	47,652
Life Science Consumables	**67,154**	52,756
Distribution and Agency of Pharmaceutical Equipment	**25,154**	26,790
Total	**679,750**	705,153





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 Liquid and Bioprocess System business

2004

Austar Shijiazhuang Technology Centre was established and commenced our Clean Room and Automation Control and Monitoring System business

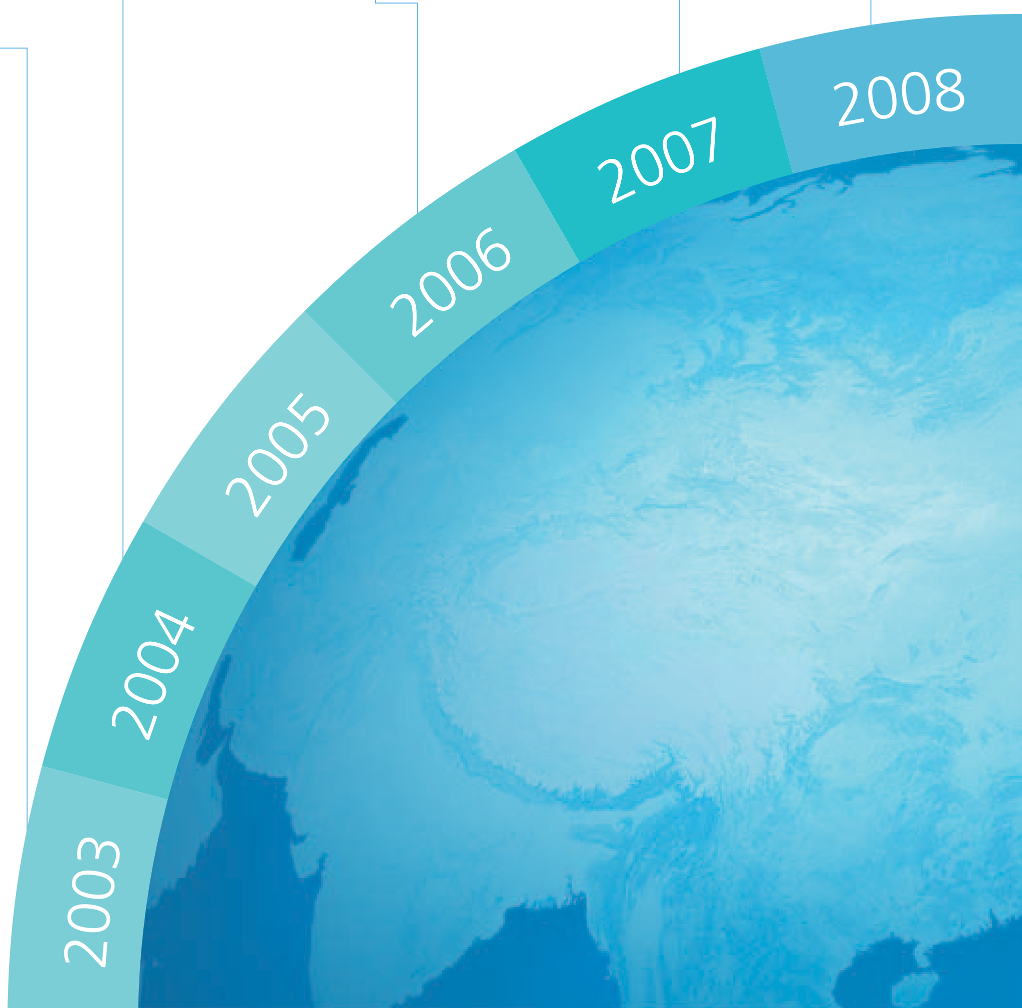
2006

Austar set up joint venture with STERIS Corporation

2007

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

Formed a joint venture with ATMI Packaging N.V.



2008

Austar commenced Liquid and Bioprocess System business

2011

Austar was certified as Siemens AG Solution Partner

2012

Austar was certified as Rockwell Automation, Inc. Recognized System Integrator

2013

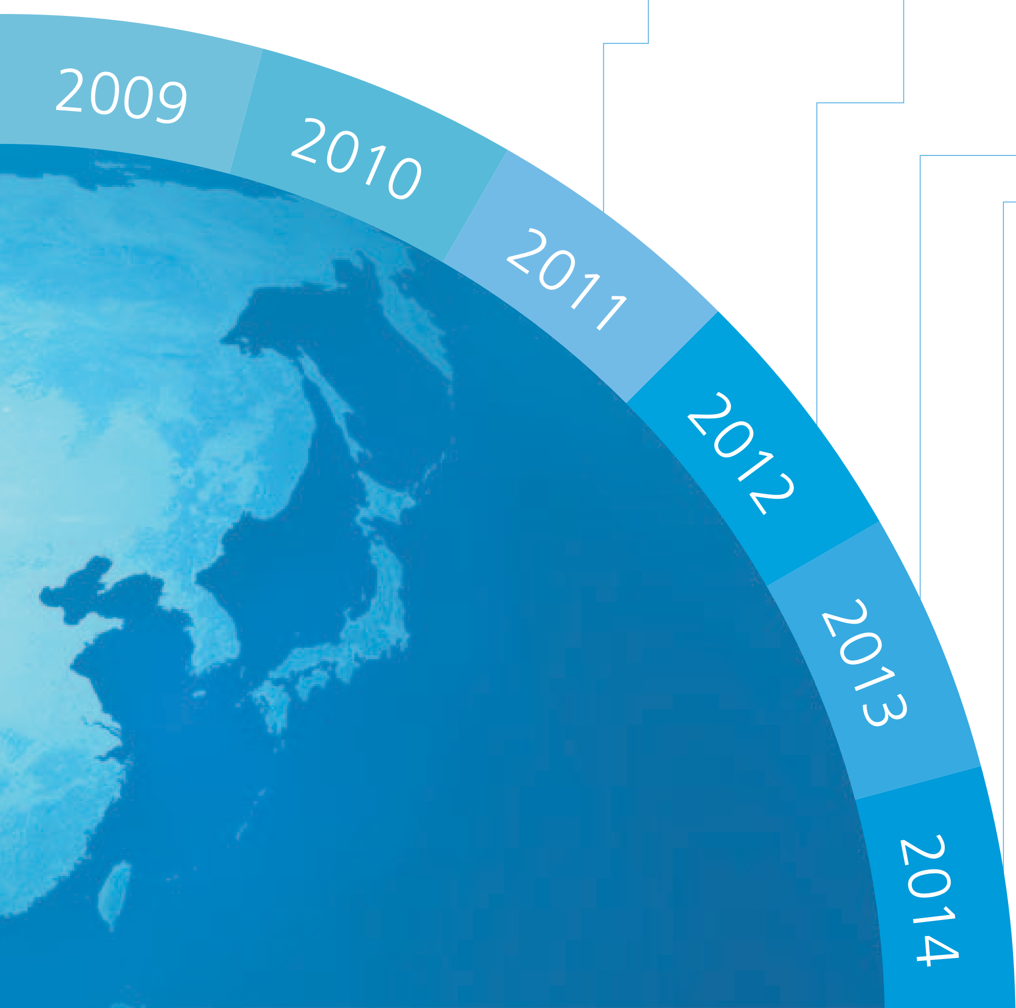
Austar was certified as Siemens Gold Solution Partner

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

2014

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

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



CHAIRMAN'S **STATEMENT**

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Austar Lifesciences Limited (the "Company"), I am pleased to present the first annual report of the Company and its subsidiaries (collectively as the "Group" or "Austar"), after the listing of the shares of the Company (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), for the year ended 31 December 2014 ("Year 2014").

2014 was a remarkable year for the Group as we made milestone achievement in our business development and corporate history. On 7 November 2014, the shares of the Company were successfully listed on the Main Board of the Stock Exchange (the "Listing"). We had received prodigious support in the capital market. The Listing not only lays a solid foundation for our future expansion and development, but also paves way to further enhance our brand name both in the industry and globally. With the successful Listing allowing access to global financial resources, we are well-set to realise our vision of becoming a leading integrated engineering solutions provider to the booming biopharmaceutical industry.

RESULTS

In 2014, facing with the complicated and volatile international environment and the slowdown in the economic growth of the People's Republic of China (the "PRC"), as a leading provider of integrated engineering solutions to pharmaceutical manufacturers and research institutes in the PRC, the Group was able to maintain similar scale of operations as that of the previous year with total revenue amounted to approximately RMB679.8 million for Year 2014 and the profit attributable to the owners of the Company increased to RMB65.2 million, representing a growth of 21.7%. The unaudited adjusted net profit attributable to the shareholders of the Company derived, and excluding one-off item relating to our initial public offering, was approximately RMB80.5 million, representing a growth of 33.9% as compared to 2013.

The Board recommends the payment of a final dividend of HK$0.05 (equivalent to approximately RMB0.0396) per Share for Year 2014. The proposed dividends represented approximately 31% of the profit attributable to the owners of the Company for the Year 2014 and is subject to the approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company.

BUSINESS OVERVIEW

Despite a challenging year of 2014, as one of the pioneers with leading brand in the PRC pharmaceutical equipment, process system and service markets, our management strategy is to focus on projects with high profit margins. Our extensive technical expertise and know-how, our knowledge in market trends in the pharmaceutical industry and strategic location of our sales offices enable us to enjoy the advantages of acting as first mover to explore opportunities to offer our high-ended bioprocess systems which facilitates the production of biopharmaceutical such as monoclonal antibody, vaccine, recombinant protein product and blood products to our new and existing customers in order to expand our market shares. During Year 2014, we have succeeded in securing a number of biopharmaceutical related projects including monoclonal antibodies projects, insulin projects and varicella vaccines projects of reputable domestic and multi-national pharmaceutical manufacturers.

CHAIRMAN'S STATEMENT

In addition, due to technological gap between the PRC and the emerging countries, leveraging on the know-how, expertise and experience which our Group possesses based on our years of experience in the PRC, we continued to penetrate deeper into PRC markets and expand our markets into the emerging countries. The Group has successfully penetrated into Xinjiang Province in the PRC as well as Mongolia and Myanmar through our overseas offices in Italy and Indonesia.

In 2014, we were appointed as the exclusive distributor in the PRC for Allentown Inc. on the supply of animal laboratory research products. This marked our initial entry into the market of animal laboratory research market in the PRC.

PROSPECTS

In recent years, biopharmaceutical industry has been the fastest growing sector in the global pharmaceutical industry but the PRC is still lagging behind in terms of biomedical development compared to the U.S. and the European countries. Currently, Chinese biological and bio-chemical pharmaceutical industry only stands for a small portion in the biopharmaceutical industry.

Under the PRC's Biopharmaceutical Twelfth Five-Year Plan, the PRC government continues its focus on the industry and in particular, the PRC government will actively implement six vital biopharmaceutical research plans including protein, stem cells, reproductive development and other biological related fields. As a result, more and more Chinese companies are devoting themselves to biopharmaceutical business.

The production process and quality control of biopharmaceutical products are complex and demanded advanced technology while the production environment has to be operated at the minimal pollutants and containment levels. Therefore, high-end pharmaceutical equipment, process system and service are in great demand and the biopharmaceutical industry has broad room for growth.

In addition, amendment to the Environmental Protection Law was passed by the National People's Congress of the PRC in April 2014 which has been considered as "the most stringent environmental protection law ever". The revised PRC Environment Protection Law centers on the discussion of promoting environmental, health and safety ("EHS") management level, adapting to new development demands and achieving sustainable development through interpretation of state policies, clean production, occupational health, pollution prevention and control, etc. Thus, EHS control qualification audit may further promote the pharmaceutical manufacturers to adopt advanced powder containment system, a higher standard of validation and quality control services and life science consumables to protect the safety and health of operators and environment.

According to a commissioned report of Frost & Sullivan issued in 2014, the market size of the high-ended clean utility, process system and service market is expected to increase from RMB14.7 billion in 2014 to RMB44.3 billion in 2019, representing a compound annual growth rate of 24.7%. The expected growth would be beneficial to high-end players like our Group.

Research and development has always been our top priority and focus in terms of resources allocation, which cemented solid and advanced technological barriers that differentiated Austar among the rest of the players. We will continue to invest in our research and development activities by strengthening our knowledge acquisition model to develop new products offerings and production application including the freeze dryer which is targeted to be launched in the third quarter of 2015 and animal laboratory research products in order to capture the expected growth of biopharmaceutical market especially in vaccines and monoclonal antibodies in the PRC. The Group will continue to implement our established strategy of focusing on the biological sectors which the Board considers with high growth and high profit margin which could enhance the overall financial performance of the Company.

In addition, our office in Italy will assist us to explore and identify suitable strategic cooperation opportunities with international key players in the life science sectors to develop a diversified and integrated solution platform and leverage onto our comprehensive service and product offerings especially in the biopharmaceutical sector and powder sector with a view to maximizing the interests of the Shareholders.

We currently have sales offices and representative offices throughout the PRC and have overseas offices in Italy and Indonesia. Such strategic locations allow the Group to cover all the provinces in the PRC and major emerging countries. Nevertheless, room for our growth is still broad and we will continue to focus on our market development plan which targets new markets in rapidly developing regions in the PRC and emerging countries while penetrating further into existing markets.

As always, our vision is to promote the development of the pharmaceutical industry (推動行業進步) and maximize the benefits of the Shareholders.

APPRECIATION

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

Ho Kwok Keung, Mars
Chairman

24 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Since 2008, the PRC government has undergone healthcare reform to provide an affordable and accessible basic healthcare in the PRC. The implementation of the new rural cooperative medical insurance scheme provided the essential healthcare services to rural residents. With the increase in disposal income and rising living standards of the PRC citizens, the demand for high quality and effective pharmaceutical drugs has been increasing. Biological drugs including vaccine, recombinant protein product and blood products may be considered to have better perspective to treat some kinds of serious diseases and their biocompatibilities are also regarded as having lesser cell toxicity than chemical drugs.

Biopharmaceutical industry has been the fastest growing sector with the U.S. and the European countries taking the core position while Chinese biopharmaceutical industry stands for a small portion. However, Chinese biopharmaceutical industry has played a continuous indispensable role as reputable international pharmaceutical manufacturers continued to make heavy investment in the PRC to set up manufacturing facilities. The Group was committed to target this group of premium customers both in the PRC and the emerging countries by providing quality and comprehensive solutions. Through the modification of the Group's modularization of our products and applications and enhancement of the efficiency and effectiveness of the Group's production process, the Group was able to maintain stable growth and reported an increase of approximately 21.7% in the profit attributable to the owners of the Company for the year ended 31 December 2014.

The production process of biopharmaceutical products are complex and demanded advanced technologies. The production environment has to be operated at the minimal pollutants and containment level. Thus, the clean utility engineering system and services are expected to experience strong growth in the future.

On 24 April 2014, the PRC Government approved changes to the Environment Protection Law of the People's Republic of China (the "Revised Law"). The Revised Law has come into effect on 1 January 2015 and applies to all industries including the pharmaceutical industry. The Revised Law imposes stricter obligations on enterprises regarding clean production, occupational health, as well as pollution prevention and control. Thus, environmental, health and safety ("EHS") control qualification audit may further promote the pharmaceutical manufacturers at our favour to adopt advanced powder containment system, a higher standard of validation and quality control services and life science consumables to protect the safety and health of operators and environment.

In 2011, China Drug and Food Administration (the "CFDA") published the new Good Manufacturing Practice (the "GMP"), in which, sterile pharmaceutical drug products are required to be manufactured under stricter control and regulations. The new rules placed greater emphasis on the use of effective quality management system. Under such circumstances, many pharmaceutical manufacturers in the PRC started to invest to improve manufacturing process and related equipment in order to gain certificates of new GMP. According to the statistics of the CFDA, as at 31 December 2013, only 60.3% (796) of all aseptic pharmaceutical manufacturers obtained new GMP certificates. As GMP qualification needs to be reviewed periodically, it creates a continuous demand for our GMP Compliance Service. With the differences between the PRC GMP standard and that of the U.S. and Europe, the Group believes that there is a huge potential growth in the Group's business segments.

Compared with the GMP of mature markets such as the U.S. and European countries, China's new GMP absorbs the mature markets' advantages and localises certain aspects to adapt to the pharmaceutical industry in the PRC. As there is a gap in standards between the PRC, the U.S. and Europe, there exists potential growth for solutions providers to merge foreign technology and standards with domestic equipment and systems to offer integrated engineering solutions to domestic pharmaceutical manufacturers.

In March 2015, in order to guide and standardise the development and evaluation of biosimilars and promote the sound development of the biomedicine industry, the CFDA has issued the "Technical Guideline for Development and Evaluation of Biosimilars (interim)" (《生物類似藥研發與評價技術指導原則(試行)》), and specified relevant requirements on the application procedure, registration classification, and application documents of biosimilars. With this clearer policy and more precise strategic directions given on biologics drug development and manufacturing, the industry is encouraged to make more investment decisions with high confidence.

According to a commissioned report of Frost & Sullivan issued in 2014, the total market size of the clean utility, process system and service market is expected to increase from RMB59.7 billion in 2014 to RMB123.8 billion in 2019, representing a compound annual growth rate ("CAGR") of 15.7% while the market size of the high-ended clean utility, process system and service market is expected to increase from RMB14.7 billion in 2014 to RMB44.3 billion in 2019, representing a CAGR of 24.7%. Currently, the market is fragmented and only international engineering solution providers and a handful of domestic players are capable to provide complete and tailor-made solutions that meet the standards of the Drug and Food Administration ("FDA") of the U.S., the European Medicines Agency ("EMA") and the World Health Organization ("WHO"). These are categorised as the high-ended players who are serving multinational pharmaceutical manufacturers and large-scale biopharmaceutical manufacturers. Serving such high-end market requires strong R&D capability, advanced technology and heavy investment, which limits the entering of new players.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and the emerging countries. The Company's shares have been successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 7 November 2014.

The Group offers high-end integrated engineering solutions for its customers to set up production facilities and also build up a clean environment which are both critical for pharmaceutical production.

The Group's business can be categorised onto six segments, namely, (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. The Group's ability to provide comprehensive services and products across these business segments in different stages of a pharmaceutical product lifecycle enables the Group to solidify its working relationships with our customers.

The Group's solutions cover Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System and GMP Compliance Service to assist its customers in key phases of pharmaceutical product lifecycle from research, development, pilot plant and commercial production to product launch. The Group, together with its joint ventures, also engage in the manufacture, sale and distribution of various types of high-end pharmaceutical equipment and life science consumables.

Leveraging on the know-how, expertise and experience, the Group is capable to provide quality and comprehensive solutions. This has allowed us to serve premium customers in the PRC and the emerging countries with lucrative profit margins. The Group's revenue amounted to RMB679.8 million for the year ended 31 December 2014, representing a slight decrease of 3.6% from RMB705.2 million for the year ended 31 December 2013.

ORDER-IN-TAKE

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

	For the year ended 31 December				
	2014		2013		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**429,335**	**52.8%**	370,786	46.1%	15.8%
Clean Room and Automation Control and Monitoring System	**189,992**	**23.4%**	201,454	25.0%	(5.7%)
Powder and Solid System	**38,750**	**4.8%**	62,828	7.8%	(38.3%)
GMP Compliance Service	**42,394**	**5.2%**	69,593	8.7%	(39.1%)
Life Science Consumables	**80,659**	**9.9%**	61,735	7.7%	30.7%
Distribution and Agency of Pharmaceutical Equipment	**31,643**	**3.9%**	37,758	4.7%	(16.2%)
Total	**812,773**	**100.0%**	804,154	100.0%	1.1%

During the year ended 31 December 2014 (the "Year"), the total order-in-take amounted to approximately RMB812.8 million, representing a slight increase of 1.1% from approximately RMB804.2 million for the year ended 31 December 2013, which was mainly attributable to the increase in order-in-take amount of the business segment of Liquid and Bioprocess System and Life Science Consumables but partially offset by the decrease in order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System, Powder and Solid System and GMP Compliance Services. Although the 2014 order-in-take amounts attained a slight increase as compared with those of 2013, the Group succeeded in improving the overall gross profit margin to 33.6% for the year ended 31 December 2014 from 30.5% for the year ended 31 December 2013. This was mainly because the Group has adopted a combination of measures to strengthen cost control, improve operational efficiency and adjust product portfolios.

LIQUID AND BIOPROCESS SYSTEM

In view of the fast growing biopharmaceutical industry in 2014, the Group focused on acquiring high margin bioprocess system projects. The Group has successfully secured a number of biopharmaceutical projects including monoclonal antibody projects, insulin projects and vaccine projects of reputable domestic and multi-national pharmaceutical manufacturers. The order-in-take amount of the business segment of Liquid and Bioprocess System increased by approximately RMB58.5 million or 15.8% from RMB370.8 million for the year ended 31 December 2013. The Group will continue to place our efforts in pursuit of biopharmaceutical projects.

CLEAN ROOM AND AUTOMATION CONTROL AND MONITORING SYSTEM

During the Year, in response to the keen market competition on low margin clean room enclosure components and system, the Group focused on acquiring high valued-added automation control and monitoring system projects. During the Year, the order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB11.5 million or 5.7% to approximately RMB190.0 million from RMB201.5 million for the year ended 31 December 2013.

POWDER AND SOLID SYSTEM

During the Year, in response to the changing demand and requirements in the markets, the Group was under the process of upgrading and modifying its self-manufactured discharging machines which led to the decrease in the order-in-take amount of the business segment of Powder and Solid System by approximately RMB24.1 million or 38.3% from RMB62.8 million for the year ended 31 December 2013 to RMB38.8 million for the year ended 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

GMP COMPLIANCE SERVICE

The Group's GMP Compliance Services are executed by the Group's technical expertise including conducting compliance testing and documentation of the compliance report. Due to the significant growth in 2013, the Group decided to minimise the acceptance of customers' order-in-takes but to provide training to the execution team in order to strengthen the internal execution standard to meet the expanding market demand. During the Year, the Group set up a new business unit focusing on the overseas turnkey projects, providing project design and management services and supports our other business units in securing the projects in the future. As certain team members of the GMP Compliance Services were assigned to the newly established business unit, the order-in-take amount of the business segment of GMP Compliance System decreased by approximately RMB27.2 million or 39.1% from RMB69.6 million for the year ended 31 December 2013 to approximately RMB42.4 million for the year ended 31 December 2014.

LIFE SCIENCE CONSUMABLES

During the Year, the Group actively responded to market changes in demand, made adjustments to expand its products portfolio by introducing new product types including the latest pharmaceutical instrument for quality assurance and control use, single use bioprocess system and animal laboratory research products. The order-in-take amount of the business segment of Life Science Consumables increased by approximately RMB18.9 million or 30.7% from RMB61.7 million for the year ended 31 December 2013 to approximately RMB80.6 million for the year ended 31 December 2014. The Group will continue to launch more diversified life science consumables with latest technology to our customers.

DISTRIBUTION AND AGENCY OF PHARMACEUTICAL EQUIPMENT

During the Year, the Group continued to focus on the business of integrated engineering solutions especially in the business segment of Liquid and Bioprocess System which led to the decrease in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB6.2 million or 16.2% from RMB37.8 million for the year ended 31 December 2013 to RMB31.6 million for the year ended 31 December 2014.

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 2014.

	As at 31 December 2014			
Business segment	**Number of Contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	167	26.8%	173,685	47.3%
Clean Room and Automation Control and Monitoring System	238	38.2%	117,442	32.0%
Powder and Solid System	49	7.9%	16,080	4.4%
GMP Compliance Service	51	8.2%	34,053	9.3%
Distribution and Agency of Pharmaceutical Equipment	118	18.9%	25,676	7.0%
Total	623	100.0%	366,936	100.0%

OUR PRODUCTION

The Group's production plants and its joint ventures are strategically located in Shanghai, Shijiazhuang and Beijing. All these locations allow the Group and its joint ventures to enjoy convenient transportation network and proximity to the customers where most of the PRC pharmaceutical manufacturers are located, and a steady supply of both technical and non-technical labour. In light of the high utilisation rate of the Group's existing production facilities in Shijiazhuang and to cope with the Group's expanding business and to capture future opportunities, the Group's Shijiazhuang production centre has been moved to a new premise with floor area of 8,740 square metres. The annual production capacity of SKID, a modular designed frame which is based on plug-and-play concept and integrated equipment and parts into a frame and thus enables the system to be ready to use, and discharging machines have increased from 139 units and 23 units respectively in 2013 to 344 units and 49 units respectively in 2014.

OUR RESEARCH AND DEVELOPMENT

Research and development has always been the Group's top priority and focus in terms of resources allocation, which cemented solid and advanced technological barriers that differentiated the Company among the rest of the players. Utilising the Group's knowledge experience acquisition model, the Group implemented a four-step approach to pursuit technological advancements with an aim to deliver innovative and up-to-date technological solutions to meet customers' requirements and expectations. During the Year, the Group has launched cart for cleaning rust in pharmaceutical water systems and a containment technology for powder transfer systems which complements the Group's existing solution applications. As at 31 December 2014, the Group had obtained 60 registered patents and 24 patent applications was in progress.

MANAGEMENT DISCUSSION AND ANALYSIS

SALES AND MARKETING

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to the customers. The Group currently has sales offices and representative offices throughout the PRC and has also set up overseas offices in Italy and Indonesia. The Group conducts marketing and promotional activities and builds customer relationships through actively participation in domestic and international exhibitions and conventions. During the Year, the Group has been regularly participating in a number of international conferences including the China International Pharmaceutical and Cosmetic Industry Exhibition, the China International Pharmaceutical Machinery Exposition and the CPhI Worldwide Pharma Expo which were held both in the PRC and overseas, where the Group showcased its products with a view to solicit business opportunities and keep abreast with market needs. During the Year, apart from penetrating deeper into the existing markets, the Group has also successfully penetrated into new markets including Xinjiang Province in the PRC as well as Mongolia and Myanmar.

With the collaboration of national and provincial food and drug administrations, the Group also held technology exchange seminars, training sessions and forums, in which domestic and overseas experts were invited to brief the official provincial inspectors in the PRC and the Group's customers on the latest technological and regulatory requirements in the pharmaceutical industry. Information exchange through these seminars allowed the customers to fully understand the global development trend of pharmaceutical industry in terms of latest technology and regulations and how the Group's products meet these new requirements. The Group believes that these seminars promoted industry advancement and created value for the customers, which in turn drove the growth of sales and increasing the amount of orders.

DEVELOPMENT OF ENTERPRISE RESOURCE PLANNING SYSTEM (THE "ERP SYSTEM")

In response to rapid development of the business during the Year, the Group initiated the improvement of the existing ERP System with additional function applications such as customer relations management, human resources management, project management, operation management and financial reporting management in order to improve the Group's operational and management efficiency. It is believed that investment in these additional features will help integrate and streamline the Group's operation performances in coming years.

PROSPECTS

Increase the market share in the PRC and the emerging countries

China

The Group plans to continue focusing in the PRC in the near future. In terms of territory coverage, the Group will place more resources and efforts to enhance the Group's market penetration in the PRC, especially in various provinces where the Group targets to increase its sales and where the Group sees potential growth in the western and northern regions of China. The Group plans to increase its sales force, hire additional staff, place more experienced sales team to cover these areas, so as to implement its marketing plans for developing new and deepening existing relationships with targeted customers in these areas.

Emerging Countries

In light of the anticipated growing demand of the Group's turnkey projects, integrated engineering solutions and supply of pharmaceutical equipment for customers based in the emerging countries, the Group will continue to expand via our offices in Italy and Indonesia. The Group also aims to acquire turnkey projects in the Middle East, Russia and South East Asia through collaboration with local experts.

Improve our service and products offerings

Liquid and Bioprocess System

To capture the expected growth of biopharmaceutical market especially in vaccines and monoclonal antibodies in China, the Group has attached great importance in development of a freeze dryer which is used for drying biological products without destroying their physical structure and biological performance. This newly developed freeze dryer, which has more competitive advanced technologies, is currently under testing stage and is expected to be commercially launched in the third quarter of 2015.

Clean Room and Automation and Monitoring System

Manufacturing Execution System ("MES") with the linkage between enterprise resources system and control systems of equipment can help improve the quality and compliance systems of a pharmaceutical company across the whole pharmaceutical manufacturing process on which pharmaceutical manufacturers have placed increasing concern. With the Group's extensive technical expertise and know-how in the pharmaceutical industry, the Group plans to set up a MES business unit and developed its MES in the hope of capturing this business opportunity.

Powder and Solid System

In response to the strong emphasis on EHS and occupational safety requirements, the Group plans to launch a new model of powder and solid system with better features in order to capture the fast growing formulation technology improvement market of drug delivery systems. In particular, the Group intends to launch more self-manufactured equipment in the Group's complete oral solid dosage system in 2015.

GMP Compliance Service

With a proper mix of foreign and local staff and the ability to offer competitive price and technological advantages, the Group intends to extend its services in the following areas: (i) cold chain consultancy services addressing the improved China's good supply practice (GSP); (ii) operational excellence consultancy services through offering gap analysis and improvement initiatives advice and management tools; (iii) quality management system consultancy services pursuant to Chinese regulators' newly encouraged pharmaceutical quality systems; (iv) registration support services, assisting pharmaceutical manufacturers or research organizations to register their pharmaceutical products with the FDA, the EMA and the WHO; and (v) turnkey projects which provide concept design and detailed design and related mechanical and electrical installation services.

MANAGEMENT DISCUSSION AND ANALYSIS

Widen the industry applications of our services and products

In addition to the above, the Group plans to widen the industry applications of its services and products by making modifications in its product lines to cater for manufacturers of Chinese traditional medicine, medical device manufacturers and research institutes focusing on laboratory animal research so as to further diversify the Group's customer base. In the future, the Group intends to focus more on these services and products which the Group considers as having a higher profit margin.

To strengthen our research and development and product design and development capabilities

The Group believes that the success of its service and product offerings depend on its ability to anticipate and respond to trends in technological development and its ability to produce and provide reliable, compatible and quality services and products. The Group will continue to strengthen its research and development, product design and development capabilities by building dedicated facilities and hiring additional full-time research and development personnel.

To expand by opportunistic and strategic acquisition of business and/or companies

Leveraging on the Group's leading position in the PRC market, the Group believes that it is well-positioned to take advantage of the market consolidation in the PRC pharmaceutical industry. The Group intends to seek suitable merger and acquisition targets to further expand the Group's service and product offerings. The Group intends to utilise its office in Italy to assist in searching and exploring joint ventures, technology licensing and acquisition opportunities in Europe and liaising with identified potential partners and target companies.

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 RMB679.8 million, representing a decrease of 3.6% over 2013, primarily due to the decrease in revenue from the business segment of Liquid and Bioprocess System which had partially offset the increase in revenue from the business segments of Powder and Solid System, Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the years ended 31 December 2014 and 2013, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2014		2013		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**342,063**	**50.3%**	380,997	54.0%	(10.2%)
Clean Room and Automation Control and Monitoring System	**146,163**	**21.5%**	152,545	21.6%	(4.2%)
Powder and Solid System	**48,406**	**7.1%**	44,413	6.3%	9.0%
GMP Compliance Service	**50,810**	**7.5%**	47,652	6.8%	6.6%
Life Science Consumables	**67,154**	**9.9%**	52,756	7.5%	27.3%
Distribution and Agency of Pharmaceutical Equipment	**25,154**	**3.7%**	26,790	3.8%	(6.1%)
Total	**679,750**	**100.0%**	705,153	100.0%	(3.6%)

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB38.9 million or 10.2% from RMB381.0 million for the year ended 31 December 2013 to approximately RMB342.1 million for the year ended 31 December 2014. The decrease was mainly attributable to (i) management strategies to focus on projects with higher gross profit margin; and (ii) the fact that there was significant growth of revenue particularly in 2013 due to the requirement for the sterile pharmaceutical manufacturers to comply with the new GMP of the PRC by 2013.

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 decreased by approximately RMB6.4 million or 4.2% from RMB152.5 million for the year ended 31 December 2013 to approximately RMB146.1 million for the year ended 31 December 2014. The decrease was mainly due to the decrease in acceptance of clean room enclosure projects with lower profit margin in 2014.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB4.0 million or 9.0% from RMB44.4 million for the year ended 31 December 2013 to approximately RMB48.4 million for the year ended 31 December 2014. The increase primarily resulted from the increase in sales of the discharging machines which the Group has newly launched in 2013 which were in line with the increase in order-in-take in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB3.2 million or 6.6% from approximately RMB47.7 million for the year ended 31 December 2013 to approximately RMB50.8 million for the year ended 31 December 2014, which was primarily attributable to the increased number of customers who need to comply with overseas standards including the EMA, the FDA and the WHO for the purpose of exporting their pharmaceutical products overseas. These customers continued to demand services from the Group, given the Group's extensive GMP compliance experience in the pharmaceutical industry.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB14.4 million or 27.3% from approximately RMB52.8 million for the year ended 31 December 2013 to approximately RMB67.2 million for the year ended 31 December 2014, which was primarily attributable to the increase in the Group's distribution of life science consumables manufactured by 頗爾奥星包裝科技(北京)有限責任公司 (in English for identification purpose only, PALL Austar Packaging Technology (Beijing) Limited Liability Company) ("PALL-AUSTAR WFOE") during the Year. The increase was also driven by the launch of new pharmaceutical instruments which has a wider scope of use in research institutes.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment remained relatively stable at approximately RMB25.2 million for the year ended 31 December 2014 as compared with approximately RMB26.8 million the year ended 31 December 2013.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the year ended 31 December 2014 and 2013:

	For the year ended 31 December				
	2014		2013		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**620,008**	**91.2%**	662,110	93.9%	(6.4%)
Other locations	**59,742**	**8.8%**	43,043	6.1%	38.8%
Total	**679,750**	**100.0%**	705,153	100.0%	(3.6%)

The Group derived its revenue mainly from the business operations in the Mainland China, which accounted for 91.2% of the total revenue for the year ended 31 December 2014 (2013: 93.9%).

Cost of sales

The Group's cost of sales decreased by approximately RMB39.1 million or 8.0% from approximately RMB490.2 million for the year ended 31 December 2013 to approximately RMB451.1 million for the year ended 31 December 2014. Such decrease was mainly attributable to the decrease in the cost of raw materials of RMB41.3 million from the business segment of Liquid and Bioprocess System primarily resulting from the decrease in the cost of purchase of materials and components as a result of the decrease in the Group's revenue for the year ended 31 December 2014.

Gross profit and gross profit margin

The Group's gross profit rose by approximately RMB13.6 million or 6.3% from approximately RMB215.0 million for the year ended 31 December 2013 to approximately RMB228.6 million for the year ended 31 December 2014. The gross profit margin increased from 30.5% for the year ended 31 December 2013 to 33.6% for the year ended 31 December 2014, which was mainly resulted from the increase in gross profit margin from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System and Powder and Solid System.

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

	For the year ended 31 December					
	2014			2013		
	RMB'000	**%**	**Gross profit margin %**	RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**89,455**	**39.1%**	**26.2%**	84,618	39.4%	22.2%
Clean Room and Automation Control and Monitoring System	**48,295**	**21.1%**	**33.0%**	47,038	21.9%	30.8%
Powder and Solid System	**21,096**	**9.2%**	**43.6%**	14,376	6.7%	32.4%
GMP Compliance Service	**29,808**	**13.1%**	**58.7%**	31,466	14.6%	66.0%
Life Science Consumables	**28,363**	**12.4%**	**42.2%**	23,170	10.8%	43.9%
Distribution and Agency of Pharmaceutical Equipment	**11,590**	**5.1%**	**46.1%**	14,298	6.6%	53.4%
Total	**228,607**	**100.0%**	**33.6%**	214,966	100.0%	30.5%

MANAGEMENT DISCUSSION AND ANALYSIS

Liquid and Bioprocess System

The Group's gross profit from the business segment of liquid and Bioprocess System rose by approximately RMB4.8 million or 5.7% from RMB84.6 million for the year ended 31 December 2013 to approximately RMB89.5 million for the year ended 31 December 2014. The gross profit margin from the business segment of Liquid and Bioprocess System increased from 22.2% for the year ended 31 December 2013 to 26.2% for the year ended 31 December 2014 mainly resulted from the Group's strategy to focus on projects with higher profit margin.

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 RMB1.3 million or 2.7% from RMB47.0 million for the year ended 31 December 2013 to approximately RMB48.3 million for the year ended 31 December 2014. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System increased from 30.8% for the year ended 31 December 2013 to 33.0% for the year ended 31 December 2014 mainly resulted from the decrease in acceptance of clean room enclosure projects with lower profit margin in 2014 and the bulk purchase discount offered by the Group's suppliers and the standardisation of certain production procedures which increased efficiency.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB6.7 million or 46.7% from RMB14.4 million for the year ended 31 December 2013 to approximately RMB21.1 million for the year ended 31 December 2014. The gross profit margin from the business segment of Powder and Solid System increased from 32.4% for the year ended 31 December 2013 to 43.6% for the year ended 31 December 2014 mainly resulted from the Group's improved know-how and techniques in the production of discharging machines which led to increased cost efficiency.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service decreased by approximately RMB1.7 million or 5.3% from RMB31.5 million for the year ended 31 December 2013 to approximately RMB29.8 million for the year ended 31 December 2014. The gross profit margin from the business segment of GMP Compliance Service decreased from 66.0% for the year ended 31 December 2013 to 58.7% for the year ended 31 December 2014, which was mainly attributable to certain projects undertaken during the Year which carried a relatively lower gross profit margin in view of the launch of products and services in new markets and retaining the long term customers.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB5.2 million or 22.4% from approximately RMB23.2 million for the year ended 31 December 2013 to approximately RMB28.4 million for the year ended 31 December 2014. The gross profit margin from the business segment of Life Science Consumables decreased from 43.9% for the year ended 31 December 2013 to 42.2% for the year ended 31 December 2014. Such decrease was mainly attributable to the increase in our distribution of life science consumables manufactured by PALL-AUSTAR WFOE for the year ended 31 December 2014 which had a relatively lower gross profit margin and launch of new pharmaceutical instruments with lower gross profit margin.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB2.7 million or 18.9% from approximately RMB14.3 million for the year ended 31 December 2013 to approximately RMB11.6 million for the year ended 31 December 2014. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from 53.4% for the year ended 31 December 2013 to 46.1% for the year ended 31 December 2014 mainly due to the decreased in amount of agency service provided for pharmaceutical equipment which had higher gross profit margin.

Other income

Other income increased by approximately RMB1.0 million or 90.9% to approximately RMB2.1 million for the year ended 31 December 2014 from approximately RMB1.1 million for the year ended 31 December 2013, mainly attributable to the increase in the subsidies granted by local government authorities of the PRC in 2014.

Other losses

Other losses increased by approximately RMB242,000 to a loss of approximately RMB288,000 for the year ended 31 December 2014 from approximately RMB46,000 for the year ended 31 December 2013, mainly attributable to the exchange losses incurred related to the Group's sales in foreign currencies during the Year.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately RMB7.0 million or 9.7% to approximately RMB65.1 million for the year ended 31 December 2014 from approximately RMB72.1 million for the year ended 31 December 2013. The decrease was primarily due to:

i. the decrease in the staff costs as a result of the decrease in the provision for bonus related to the level of revenue of the Group during the Year; but such decrease in cost was partially offset by

ii. the increase in promotion expenses of approximately RMB4.8 million during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses increased by approximately RMB9.4 million or 19.7% to approximately RMB57.3 million for the year ended 31 December 2014 from approximately RMB47.8 million for the year ended 31 December 2013. The increase was primarily due to:

i. the increase in staff costs by approximately RMB1.7 million or 7.9%, mainly attributable to increase in the number of management staff; and

ii. the increase in legal and professional fees of approximately RMB13.0 million mainly as a result of the Group's preparation for listing of the shares of the Company on the Stock Exchange during the Year.

Research and development activities

As at 31 December 2014, the Group had 42 research and development personnel which accounted for 4.2% 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 remained relatively stable at approximately RMB23.6 million for the year ended 31 December 2014, compared with RMB23.9 million for the year ended 31 December 2013.

Finance expenses – net

Finance – net changed from net finance expenses of approximately RMB42,000 for the year ended 31 December 2013 to approximately RMB809,000 for the year ended 31 December 2014, which was mainly due to the increase in interest expenses of approximately RMB527,000 primarily resulting from the increase in average bank borrowings for the year ended 31 December 2014.

Share of profit of joint ventures

The Group's share of profit of joint ventures decreased by approximately RMB271,000, from approximately RMB4.5 million for the year ended 31 December 2013 to RMB4.2 million for the year ended 31 December 2014, which was primarily due to the decrease in profit contribution from STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited which outweighed the increase in profit contribution from PALL-AUSTAR Lifesciences Limited.

Profit before income tax

The Group's profit before income tax increased by approximately 14.6% from approximately RMB76.7 million for the year ended 31 December 2013 to RMB87.8 million for the year ended 31 December 2014 which was primarily attributable to the factors as described above in this section.

Income tax expense

Income tax expense decreased by RMB450,000 to approximately RMB22.6 million for the year ended 31 December 2014 from RMB23.1 million for the year ended 31 December 2013 and the Group's effective income tax rate decreased from 30.1% for the year ended 31 December 2013 to 25.8% for year ended 31 December 2014, mainly due to the decrease in income tax rate of one of the Company's subsidiaries.

Profit for the year

The Group's profit for the year increased by approximately RMB11.6 million or 21.7% to RMB65.2 million for the year ended 31 December 2014 from approximately RMB53.6 million for the year ended 31 December 2013. The net profit margin increased from 7.6% for the year ended 31 December 2013 to 9.6% for the year ended 31 December 2014, 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	
	2014	2013
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(64,401)**	71,407
Net cash generated from/(used in) investing activities	**18,714**	(44,549)
Net cash generated from financing activities	**288,772**	10,254
Net increase in cash and cash equivalents	**243,085**	37,112

For the year ended 31 December 2014, the Group had net cash used in operating activities of approximately RMB64.4 million mainly as a result of the profit before income tax of approximately RMB87.8 million generated in 2014, which was primarily adjusted for:

i. the decrease in trade and other payables of approximately RMB86.2 million mainly due to the payment to suppliers and valued-added-tax;

ii. the increase in the trade and other receivables of approximately RMB21.6 million because certain customers have not settled their contract amount in accordance with the contract terms;

iii. the increase in amounts due from customers for contract work of approximately of RMB27.9 million mainly resulting from the increase in expenditure for our project execution near the end of the year ended 31 December 2014;

iv. income tax paid in the amount of approximately RMB29.4 million; but was partially offset by

v. the decrease in the amount of inventories in the amount of approximately RMB5.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2014, the Group had net cash used generated from investing activities approximately RMB18.7 million, which was mainly attributable to:

i. the net disposal of available-for-sale financial assets of approximately RMB35.0 million; and was partially offset by

ii. purchase of property, plant and equipment of approximately RMB11.8 million which consisted of machinery and equipment purchased for various business segment.

For the year ended 31 December 2014, the Group had net cash generated from financing activities approximately RMB288.8 million mainly as a result of:

i. net proceeds of RMB320.0 million received upon the issuance of shares upon the Company's initial public offering; and

ii. repayment of funds of RMB37.8 million to the predecessor parent company.

As at 31 December 2014 and 31 December 2013, the Group had cash and cash equivalents of approximately RMB382.6 million and RMB139.7 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB4.2 million and RMB4.5 million respectively.

Net current assets

The Group's net current assets as at 31 December 2014 had increased by approximately RMB423.5 million, from approximately RMB71.3 million as at 31 December 2013 to RMB494.7 million as at 31 December 2014. The increase was mainly due to the greater increase in the Group's current assets.

As at 31 December 2014, the Group's total current assets amounted to approximately RMB799.4 million, which was an increase of approximately RMB261.9 million as compared with approximately RMB537.5 million as at 31 December 2013. The increase was primarily due to:

i. the increase in cash and cash equivalents of approximately RMB242.9 million, mainly resulted from the proceeds from the Company's initial public offering during the Year;

ii. the increase in contract work-in-progress of approximately RMB27.9 million primarily resulting from the increase in the progress for project execution near the financial year end of 2014 as compared to the previous year; but was partially offset by

iii. the decrease in inventory of approximately RMB5.4 million as a result of improved inventory control.

As at 31 December 2014, the Group's total current liabilities amounted to approximately RMB304.7 million, which was a decrease of approximately RMB161.5 million as compared with approximately RMB466.2 million as at 31 December 2013. The decrease was primarily due to:

i. the decrease in trade and other payables of approximately RMB168.3 million mainly due to the payment to suppliers and valued-added-tax;

ii. income tax paid in the amount of approximately RMB29.4 million; but was partially offset by

iii. the increase of bank borrowings of approximately RMB35.0 million mainly for our future business expansion and repayment of bank borrowings of approximately RMB20.0 million during the Year.

Borrowings and gearing ratio

As at 31 December 2014, the total interest-bearing borrowings amounted to approximately RMB35.0 million, an increase of approximately of RMB15.0 million from approximately RMB20.0 million as at 31 December 2013.

The Group's gearing ratio was approximately 6.4% as at 31 December 2014, compared to approximately 15.6% as at 31 December 2013. The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2014, save for pledged bank deposits, the Group had buildings and land use rights of a total carrying amount of approximately RMB10.1 million and RMB6.1 million (2013: approximately RMB10.8 million and RMB6.3 million respectively) which are pledged as security for short-term borrowings with carrying value of RMB35.0 million (2013: RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2014 (2013: Nil).

HUMAN RESOURCES

As at 31 December 2014, the Group had 1,003 full-time employees for, inter alia, research and development, sales and marketing, administration, project management and execution and manufacturing, representing an increase of 18.4% as compared with 847 employees as at 31 December 2013. The employee costs (including the Directors' remuneration) were approximately RMB121.6 million, which was an increase of 1.6% as compared with approximately RMB119.7 million for the year ended 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and granting of performance-based bonuses in accordance with general standards set out in the Group's remuneration policy.

The Group will regularly review its remuneration policies and employee benefits with reference to market practices and performance of individual employees. The remuneration of the employees and the Directors are determined by reference to their responsibilities, professional qualification, industry experience and performance. The emolument policy of the Directors is decided by the remuneration committee of the Board.

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

CAPITAL COMMITMENTS

The Group did not have any material capital commitments as at 31 December 2014 (2013: Nil).

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 U.S. dollar. Foreign exchange risk arises from the sales of the Group's products and services to overseas customers who settle payments in foreign currencies and the foreign currencies held by the Group's subsidiaries and offices. The Directors do not consider the foreign exchange rate risks as material to the Group and therefore, did not carry out any financial instruments such as forward foreign currency exchange contracts to hedge such risks.

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

On 7 November 2014 (the "Listing Date"), the ordinary shares of the Company with a nominal value of HK$0.01 each (the "Shares") were first listed on the Stock Exchange following the completion of its initial public offering (the "IPO"). 125,000,000 Shares were issued at a price of HK$3.12 per Share under the IPO. On 28 November 2014, the over-allotment option was partially exercised by the sole global coordinator of the IPO on behalf of the international underwriters. Under the over-allotment option, an aggregate of 12,582,000 Shares, representing 10.07% of the Shares initially being offered under the IPO before any exercise of the over-allotment option, were allotted and issued by the Company at HK$3.12 per Share. The aggregated net proceeds from the IPO was HK$411.8 million.

As at 31 December 2014, the total net proceeds has been deposited into the banks and such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of proceeds" in the prospectus of the Company dated 28 October 2014 (the "Prospectus"). As at 31 December 2014, no such proceeds had been used.

As set out in the sections headed "Business – Business strategies – To establish R&D centre and consolidate production workshops – Shijiazhuang R&D and Production Centre" and "Future plans and use of proceeds" in the Prospectus, the Group intended to apply part of the net proceeds of the IPO for the acquisition of the land use rights of a piece of land in Shijiazhuang High-New Technology Industry Development Zone (the "Zone"), Hebei, the PRC and for the construction of new R&D and production centre thereon. The Group was then discussing the terms of acquisition of such land, and no definitive terms of acquisition have been agreed upon and no legally binding agreement has been entered into between the Group and the local government of Shijiazhuang. Due to subsequent change of policy of the local government, the Group was informed by the local government of Shijiazhuang that the land which was subject to discussion between the Group and the local government of Shijiazhuang now becomes unavailable. The Group is currently in negotiation with the relevant PRC local government authority to acquire land use right of another piece of land of similar size in the Zone, and the Group's intention to build the Shijiazhuang R&D and Production Centre on such land remains unchanged. The net proceeds from the IPO allocated for such purpose will remain to be held by the Group as such as at the date this Annual Report.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Our Board comprises 9 Directors, including 4 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors. The following table sets forth certain information relating to our Directors:

DIRECTORS

Name	Age	Position
Executive Directors		
Mr. Ho Kwok Keung, Mars	52	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	57	Executive Director
Mr. Chen Yuewu	48	Executive Director
Madam Zhou Ning	42	Executive Director
Non-executive Directors		
Mr. Enzo Barazetti	63	Non-executive Director
Madam Ji Lingling	32	Non-executive Director
Independent non-executive Directors		
Mr. Cheung Lap Kei	43	Independent non-executive Director
Madam Chiu Hoi Shan	38	Independent non-executive Director
Mr. Raco Ivan Jordanov (alias Racho Jordanov)	67	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho") (何國強), aged 52, was appointed as a Director on 9 January 2014 and became our executive Director with effect from 20 June 2014. He is also the chairman of our Board and chief executive officer. Mr. Mars Ho is the founder of the Group and is responsible for overseeing the business, corporate strategy, long-term planning all-round development of our Group. He has over 29 years of experience in the pharmaceutical industry. Prior to founding our 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 PRC. His technical knowledge has been acquired from his execution of projects and business with various partners over the past decades.

** For identification purpose.*

In recognition of Mr. Mars Ho's dedication and achievements in the pharmaceutical industry, he was selected and awarded the honor of pharmaceutical 中國醫藥「60年60人」("60 Elites of 60 years" in China Pharmaceutical) in November 2009, which is a recognition of his effort in influencing and contributing to the pharmaceutical industry in China. He served as the chairman of China Affiliate of International Society of Pharmaceutical Engineering (ISPE) from 2011 to 2012, which is an organisation established with the mission of connecting the world of pharmaceutical industry professionals, and he has been a member of the ISPE China Board of directors and executive council from 2013 to 2014. Mr. Mars Ho co-edited a number of pharmaceutical professional books such as Pharmaceutical Process Validation Manual, Microbial Control in Pharmaceutical Cleanroom, Pharmaceutical Liquid Process, and Pharmaceutical Water Systems. He is the current technical consultant and a member of the board of directors of China National Pharmaceutical Packaging Association. Mr. Mars Ho obtained a bachelor of science degree in engineering from The University of Hong Kong in Hong Kong in November 1985.

Mr. Ho Kin Hung ("Mr. KH Ho") (何建紅), aged 57, Mr. KH Ho was appointed as a Director on 9 January 2014 and became our executive Director with effect from 20 June 2014. He joined our Group on 20 August 2003 and is responsible for overall management of operations and sales of the Group. He has approximately 33 years of experience in the pharmaceutical industry. Prior to joining our Group, Mr. KH Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in china trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987.

Mr. Chen Yuewu (陳躍武), aged 48, was appointed as our executive Director with effect from 20 June 2014. Mr. Chen joined our Group on 1 August 2005. He is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has approximately 25 years of experience in the pharmaceutical industry. Prior to joining our Group, he worked as a production manager at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) from September 1990 to March 2000 where he was responsible for managing the engineering department and the production department. 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) was engaged in pharmaceutical production. Mr. Chen has been a technical services manager in a company controlled by Mr. Mars Ho, our chairman, chief executive officer and one of our controlling shareholders (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) prior to joining our Group. Mr. Chen obtained a bachelor's degree of electrical engineering in industrial electrical and automated production in July 1990 from 河北工學院 (Hebei Institute of Technology*) in China. He further completed a one-year course in economics and management strategy at 北京大學 (Peking University*) in October 2012.

Madam Zhou Ning (周寧), aged 42, was appointed as our executive Director with effect from 20 June 2014. Madam Zhou joined our Group on 10 April 2014. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 10 years of experience in the pharmaceutical industry. Prior to joining our 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 PRC, and it is a sub-council of 中國國際貿易促進委員會 (China Council for the Promotion of International Trade*). Before joining our Group in April 2014, from November 2005 to 14 February 2014, Madam Zhou had been employed by a company controlled by Mr. Mars Ho,

* *For identification purpose.*

our chairman, chief executive officer and one of our controlling shareholders, 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 DIRECTORS

Enzo Barazetti, aged 63, was appointed as our non-executive Director with effect from 20 June 2014. Mr. Barazetti joined our Group on 27 June 2012. Mr. Barazetti has approximately 40 years of experience in financial management, mainly spent in engineering companies. Prior to joining the Group, he acted as the assistant to the chief financial officer and was responsible for preparing the quarterly financial reports and the annual financial statements of Mobiliare Industriale Cisalpina Spa (Heineken Group) from February 1973 to October 1978. Mobiliare Industriale Cisalpina Spa was primarily engaged in the food and beer industry. From October 1978 to January 1982, Mr. Barazetti worked for Erre Service Srl as an assistant to the chief financial officer, where he was responsible for managing all the financial activities and the implementation of administration internal control. Erre Service Srl (Waircom Group) was engaged in the business of manufacturing of pneumatic cylinders and valves. He worked for Fosweco Spa as the financial director from February 1982 to June 1986 where he was responsible for financial, accounting, personnel and legal activities. Fosweco Spa (Foster Wheeler Group) was a company engaged in the business of engineering and installation of water system plants. From June 1986 to December 2003 he was employed by Foster Wheeler Finanziaria Srl (Foster Wheeler Group) and was seconded to Steril Spa. In this company he acted as chief financial officer and member of the executive committee with the responsibility of all financial, administrative, personnel and legal activities. Steril Spa engaged in the business of engineering in the pharmaceutical field. From March 2004 to December 2005 he worked for Foster Wheeler Italiana with the responsibility of risk management and supporting financial activities. Foster Wheeler Continental Europe Srl was a holding company of the Foster Wheeler Group companies in Europe. From January 2006 to December 2010, he worked for Angelantoni Industrie Spa (Angelantoni Group) as Business Developer with the responsibility to establish partnerships and M&A. Angelantoni Industrie Spa was engaged in the business of manufacturing pharmaceutical equipment, automotive devices and green power. Mr. Barazetti graduated in 1970 in business economy high school Enrico de Nicola - Monza (Milano). Mr. Enzo Barazetti was a director of Steril SPA from 1987 to 2004. Steril Spa was deregistered because of the merger with Foster Wheeler Continental Europe S.r.l. in 2004. Steril Spa prior to deregistration was a pharmaceutical engineering company.

Madam Ji Lingling (季玲玲), aged 32, was appointed as our non-executive Director with effect from 20 June 2014, on which she joined our Group. Madam Ji is a qualified lawyer in the PRC and has approximately 10 years experience in legal compliance. Prior to becoming our 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, our chairman, chief executive officer and one of on our controlling shareholders, as an assistant to Mr. Mars Ho, assisting our Chairman in overseeing all legal matters. Madam Ji graduated from 中國人民大學 (Ren Min University of China*) in China with a bachelor's degree in laws in July 2004 and from 北京大學 (Peking University*) in China with a master's degree in laws in January 2012 respectively.

* *For identification purpose.*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei (張立基), aged 43, was appointed as our Group's independent non-executive Director with effect from 21 October 2014. He has approximately 21 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. He also served as the group financial controller, qualified accountant, authorised representative and company secretary of China Ruifeng Renewable Energy Holdings Limited (previously known as Galaxy Semi-Conductor Holdings Limited) (Stock code 527) from February 2005 to January 2008. Mr. Cheung served as the chief financial officer, qualified accountant, authorised representative and company secretary of United Photovoltaics Group Ltd (previously known as Time Infrastructure Holdings Limited) (Stock code 686), from June 2008 to January 2009. Mr. Cheung received a bachelor's degree in commerce from Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006. He is an associate member of the Hong Kong Institute of Certified Public Accountants since October 1998 and a member of Certified Public Accountants of Australia since March 1998. Mr. Cheung currently serves as chief financial officer, company secretary and authorized representative of China Zhongwang Holdings Limited (Stock code 1333) since 30 December 2008.

Madam Chiu Hoi Shan (趙凱珊), aged 38, was appointed as our independent non-executive Director with effect from 21 October 2014. Madam Chiu obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in December 1998 and June 1999 respectively. She has been practising as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. She is currently a partner at S.H. Leung & Co. which is a solicitor's firm in Hong Kong engaged in the provision of various legal services. Madam Chiu is also the company secretary of Chongqing Machinery and Electric Co., Ltd., a company whose shares are listed on the Main Board of the Stock Exchange (Stock code 2722).

Mr. Raco Ivan Jordanov (alias Racho Jordanov), aged 67, was appointed as our independent non-executive Director on 21 October 2014. Mr.Jordanov has over 31 years of experience in building and leading manufacturing operations in development-stage and multi-national biopharmaceutical companies. He spent approximately 20 years in Genentech Inc. as senior director in Singapore Operations, where he established outsourcing capabilities for pharmaceutical product substance and products, medical devices and developed manufacturing facilities. Genentech Inc. is a company which engages in the research, discovery, development, manufacture and marketing of biotechnology products. Mr. Jordanov also served as management in various companies such as Telios Pharmaceuticals and Serono S.A. before he established his own company JHL Biotech in 2012 which provides process development and manufacturing services to emerging and established biopharmaceutical companies seeking to commercialise high-quality, affordable medicine. He obtained his bachelor in science in biology at the University of California, U.S.A in 1975, bachelor degree in mechanical engineering at the Sofia Institute of Technology, Bulgaria in June 1969 and a master degree in business administration at the National University, San Diego, U.S.A in 1980.

* *For identification purpose.*

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Name	Age	Position
Mr. Gao Qiang	41	Vice president
Madam Tang Xiangdi	37	Financial controller
Mr. Yi Jun	50	General manager of Liquid and Bioprocess System
Mr. Chen Wai Chung, Edmund	42	Vice president and company secretary

Mr. Gao Qiang (高強), aged 41, was appointed as our vice president from 1 January 2014 and he is responsible for the strategic planning and execution, cooperation with business partners and overseas market expansion of our Group. Mr. Gao joined our Group in December 2012. He has approximately 10 years of experience in pharmaceutical industry and business development and international market operations. Prior to joining our Group, he has been employed as an assistant to managing director and vice general manager in a company controlled by Mr. Mars Ho, our chairman, chief executive officer and one of our controlling shareholders from November 2004 to December 2012 and from September 1999 to October 2004, he worked as a manager of the knowledge management department at Dan Form Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (Stock code 271), which is a company engaged in the investment of real estate, where he was responsible for management information system and knowledge management. Mr. Gao obtained a bachelor of arts degree majoring in English from 吉林大學 (Jilin University*) in China in July 1997 and a master's degree of business administration from a programme jointly operated by 北京大學 (Peking University*) in China and a number of universities in the United States of America in February 2005.

Madam Tang Xiangdi (唐湘娣), aged 37,was appointed as our Group's financial controller from 1 November 2013 and she is primarily responsible for the financial management of our Group. Madam Tang joined our Group in January 2013. She has over 11 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, our chairman, chief executive officer and one of our controlling shareholders, prior to joining our Group. Madam Tang obtained a bachelor's degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master's degree of business administration from 北京大學 (Peking University) in June 2014.

** For identification purpose.*

Mr. Yi Jun (易軍), aged 50, was appointed as the general manager of our Group's Liquid and Bioprocess Process System from 12 September 2008. Mr. Yi joined our Group in October 2003. He is primarily responsible for management and implementation of the Liquid and Bioprocess System. Mr. Yi has approximately 28 years of experience in the pharmaceutical industry. Prior to joining our Group, Mr. Yi worked as the department head of engineering and freeze dry machines from July 1986 to July 1996 at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*), a company engaged in production of various pharmaceutical products. Mr. Yi obtained a bachelor's degree in mechanical engineering from 河北化工學院 (Hebei Institute of Chemical Engineering*) (now known as 河北科技大學 (Hebei University of Science and Technology*)) in China in July 1986.

Mr. Chen Wai Chung, Edmund (陳煒聰), aged 42, was appointed as our Group's vice president and company secretary on 24 June 2014. Mr. Chen is responsible for overseeing our Group's financial planning and management. He joined our Group in December 2013. He has over 16 years of experience in accounting and financial control. Prior to joining our Group, Mr. Chen worked as the financial consultant of 貴州一樹連鎖藥業有限公司 (Guizhou Ensure Pharmaceutical Company Limited*), a company engaged in the retail of Chinese and western medicines from March 2003 to August 2004 and from April 2011 to January 2012, where he was responsible for preparing financial statements, business restructuring and financing matters. He held various positions in KPMG Huazhen (Beijing office) and KPMG (Hong Kong office) from September 2004 to March 2011, where he was responsible for conducting internal control reviews, and auditing relating to Chinese enterprises restructuring and initial public offering. KPMG (Hong Kong office) and KPMG Huazhen (Beijing office) are certified public accountants' firm offering a variety of professional services including audit and assurance, consultancy, corporate finance and tax. Mr. Chen worked as the chief financial officer of 中工裝備控股有限公司 (Sinomachinery Holding Limited*), a company engaged in developing and manufacturing of small and medium machinery products from February 2012 to January 2013, where he was responsible for financial management and cash flow management. Mr. Chen obtained a bachelor's degree in accountancy from the City University of Hong Kong in December 1996 and he is a member of the Hong Kong Institute of Certified Public Accounts. Mr. Chen is currently an independent non-executive director of Simsen International Corporation Limited (Stock code 993) and a non-executive director of Sunrise (China) Technology Group Ltd. (Stock code 8226).

COMPANY SECRETARY

Mr. Chen Wai Chung, Edmund (陳煒聰), is a company secretary of our Company. He is also the vice president of our Company. His profiles are set out under the paragraph headed "Senior Management" above.

** For identification purpose.*

REPORT OF THE DIRECTORS

The Board is pleased to present this Annual Report together with the audited consolidated financial statements (the "Consolidated Financial Statements") of the Group for the year ended 31 December 2014 (the "Year").

GROUP REORGANISATION

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. Pursuant to a reorganisation to rationalize the structure of the Group in preparation for the listing of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 20 June 2014. For details of the Group reorganisation, please refer to the section headed "History, Reorganisation and Group structure - Reorganisation" in the prospectus of the Company dated 28 October 2014.

The Shares have been listed on the Main Board of the Stock Exchange since 7 November 2014 (the "Listing Date").

USE OF PROCEEDS

The Company was successfully listed on the Main Board of the Stock Exchange on the Listing Date by way of international placing (the "Placing") and public offer (the "Public Offer", together with the Placing, the "Global Offering") of a total of 125,000,000 Shares at the offer price of HK$3.12 per Share (the "Listing"). On 28 November 2014, the over-allotment option in relation to the Global Offering was partially exercised by Haitong International Securities Company Limited, the sole global coordinator of the Global Offering, on behalf of the international underwriters of the Global Offering, in which an aggregate of 12,582,000 Shares, representing 10.07% of the Shares initially being offered under the initial public offering before any exercise of the over-allotment option, have been allotted and issued by the Company at HK$3.12 per Share. As at 31 December 2014, no such proceeds has been utilised.

PRINCIPAL ACTIVITIES

The Group's operations are substantially conducted through its subsidiaries in the People's Republic of China (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 9 to the Consolidated Financial Statements of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Financial Statements on pages 59 to 65 of this Annual Report.

FINAL DIVIDEND

The Board recommended to declare a final dividend of HK$0.05 (equivalent to approximately RMB0.0396) per Share for the Year. Subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on 15 May, 2015, the final dividend will be paid on or about Friday 26 June 2015 to the holders of the Shares, whose names appear on the register of members of the Company on Tuesday 26 May 2015.

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 three years ended 31 December 2013, is set out in the section headed "Four year financial summary" of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2014 are set out in Note 20 to the Consolidated Financial Statements of this Annual Report.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in Note 18 to the Consolidated Financial Statements of this Annual Report.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity on page 64 and in Note 19 to the Consolidated Financial Statements of this Annual Report.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the Shareholders as at 31 December 2014 amounted to RMB435,704,000.

REPORT OF THE DIRECTORS

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 from 7 November 2014 (i.e. the Listing Date) to 31 December 2014 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 (the "Articles") or applicable laws of the Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors of the Company during the Year and up to the date of this Annual Report were:

Executive Directors

Mr. Ho Kwok Keung, Mars (Chairman)	(appointed and effective on 9 January 2014)
Mr. Ho Kin Hung	(appointed and effective on 9 January 2014)
Mr. Chen Yuewu	(appointed and effective on 20 June 2014)
Madam Zhou Ning	(appointed and effective on 20 June 2014)

Non-executive Directors

Mr. Enzo Barazetti	(appointed and effective on 20 June 2014)
Madam Ji Lingling	(appointed and effective on 20 June 2014)

Independent Non-executive Directors

Mr. Cheung Lap Kei	(appointed and effective on 21 October 2014)
Madam Chiu Hoi Shan	(appointed and effective on 21 October 2014)
Mr. Raco Ivan Jordanov (alias Racho Jordanov)	(appointed and effective on 21 October 2014)

In accordance with Article 84(1) of the Articles and pursuant to the code provision A.4.2 of Appendix 14 to the Listing Rules, Mr. Chen Yuewu, Madam Zhou Ning and Madam Ji Lingling will retire by rotation at the forthcoming annual general meeting of the Company 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 been by way of a letter of appointment appointed for a fixed term of two years with effect from 20 June 2014.

Each of the non-executive Directors and the independent non-executive Directors has been by way of a letter of appointment appointed for a fixed term of one year with effect from their respective date of appointment.

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests and short positions of the Directors and/or 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 Securities and Futures Ordinance (the "SFO")), 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 (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

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	334,543,000 Shares (Note 1)	65.27%
	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	37,500,000 Shares (Note 4)	7.32%

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, a company wholly-owned by Madam Gu Xun, 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 Xun is interested or deemed to be interested.

(3) As at 31 December 2014, 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 2014, none of the Directors, chief executives 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

Saved as disclosed above, at no time during the Year was the Company or its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executives of the Company or their associates to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the period between the Listing Date and 31 December 2014, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and controlling shareholders of the Company (as defined under the Listing Rules) nor their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to rule 8.10 of the Listing Rules during the period between the Listing Date and 31 December 2014 and up to the date of this Annual Report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

During the Year, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards but these transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are disclosed in Note 32 to the Consolidated Financial Statements of this Annual Report.

INTERESTS OF DIRECTORS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries or fellow subsidiaries 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.

DIRECTORS' EMOLUMENTS

Details of the Directors emoluments are set out in Note 25 to the Consolidated Financial Statements of this Annual Report. The Directors' remunerations, bonuses and other compensation are determined by the remuneration committee of the Board with reference to the Directors' duties, responsibilities and the Group's performance and results.

RETIREMENT SCHEMES

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and the Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in Note 25 to the Consolidated Financial Statements of this Annual Report.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executives of the Company), who had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Capacity/Nature of Interests	Number of shares held/ Interested in	Approximate Percentage of Interest
Madam Gu Xun ("Madam Gu")	Interest of a controlled corporation	3,750,000 (Note 1)	0.73%
	Interest of spouse	334,543,000 (Note 2)	65.27%
SFH	Beneficial owner	334,543,000 (Note 3)	65.27%
Madam Cheung Chau Ping ("Madam Cheung")	Interest of spouse	37,500,000 (Note 4)	7.32%
TWG	Beneficial owner	37,500,000	7.32%

Notes:

(1) Such Shares were registered in the name of Honour Choice Ventures Limited ("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 2014, the Directors and the senior management of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted and committed to 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.

CHARITABLE DONATIONS

During the Year, the Group made charitable donations amounting to HKD1,000,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the largest customer and the largest supplier of the Group accounted for approximately 3.6% and 5.5% 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 14.6% and 20.4% of the Group's total revenue and total purchases respectively.

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

AUDITOR

PricewaterhouseCoopers has been appointed as auditor of the Company for the year ended 31 December 2014. The Company has not changed its external auditor since the Listing in November 2014 and up to the date of this Annual report. PricewaterhouseCoopers will retire, and being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution for the reappointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

24 March 2015

CORPORATE GOVERNANCE REPORT

The Company recognizes the importance of good corporate governance in management and internal control procedures so as to achieve accountability. The Company has adopted a code of corporate governance, containing the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

Save for the deviation stated in relation to the chairman of the Board and chief executive officer being the same individual and the meeting between the chairman of the Board and the independent non-executive Directors as described below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the period under review (i.e. from 7 November 2014, being the date of listing of the Shares on the Stock Exchange to 31 December 2014) (the "Period Under Review") 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 Period Under Review, the Company had been updating the Board with the Company's financial position on a monthly basis.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding its Directors' securities transactions. The Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry, all Directors have confirmed that they have complied with the required standard set out in the Model Code during the Period Under Review.

BOARD OF DIRECTORS

Function of the Board

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

Daily business operations and administrative functions of the Group are delegated to the management.

Board Composition

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

The Directors of the Company during the Period Under Review and up to the date of this Annual Report were:

Executive Director	
Mr. Ho Kwok Keung, Mars	Chairman of the Board Chairman of the Nomination Committee Member of Corporate Governance Committee
Mr. Ho Kin Hung	
Mr. Chen Yuewu	
Madam Zhou Ning	Chairlady of Corporate Governance Committee and Risk Management Committee
Non-executive Director	
Mr. Enzo Barazetti	Member of Remuneration Committee and Risk Management Committee
Madam Ji Lingling	Member of Audit Committee and Risk Management Committee
Independent non-executive Director	
Mr. Cheung Lap Kei	Chairman of the Audit Committee Member of Remuneration Committee and Nomination Committee
Madam Chiu Hoi Shan	Chairlady of Remuneration Committee Member of Audit Committee, Nomination Committee and Corporate Governance Committee
Mr. Raco Ivan Jordanov (alias Racho Jordanov)	

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

Code provision of A.2.7 of the Corporate Governance Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. As Mr. Ho Kwok Keung, Mars, the chairman of the Board, is also an executive Director, the Company has deviated from this code provision.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The independent non-executive Directors, namely Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Raco Ivan Jordanov, have been appointed for a term of one year commencing from 21 October 2014. The non-executive Directors, namely Mr. Enzo Barazetti and Madam Ji Lingling, have been appointed for a term of one year commencing from 20 June 2014.

Each of such appointments is subject to the rotation and retirement provisions in the articles of association of the Company.

BOARD COMMITTEES

The Board has established five specialized 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 (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 set out on the Company's website and the website of the Stock Exchange.

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

During the Period Under Review, no Audit Committee meeting was held.

Remuneration Committee

The Board established the remuneration committee (the "Remuneration 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, Mr. Enzo Barazetti. Madam Chiu Hoi Shan is the chairlady of the Remuneration Committee. Details of the terms of reference of the Remuneration Committee are set out on the Company's website and the website of the Stock Exchange.

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

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

During the Period Under Review, no Remuneration Committee meeting was held.

Nomination Committee

The Board established the nomination committee (the "Nomination Committee") on 21 October 2014 which comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one executive Director, namely, Mr. Ho Kwok Keung, Mars. Mr. Ho Kwok Keung, Mars is the chairman of the Nomination Committee. Details of the terms of reference of the Nomination Committee are set out on the Company's website and the website of the Stock Exchange.

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

During the Period Under Review, no Nomination Committee meeting was held.

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

Corporate Governance Committee

The Board established the corporate governance committee (the "Corporate Governance Committee") on 21 October 2014 which comprises one independent non-executive Directors, namely Madam Chiu Hoi Shan and two executive Directors, namely, Mr. Ho Kwok Keung, Mars and Madam Zhou Ning. Madam Zhou Ning is the chairlady of the Corporate Governance Committee. Details of the terms of reference of the Corporate Governance Committee are set out on the Company's website and the website of the Stock Exchange.

The primary duties of the Corporate Governance Committee are to review and monitor the Company's policy and practices on corporate governance matters and on compliance with the Corporate Governance Code under the Listing Rules 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 Period Under Review, no Corporate Governance Committee meeting was held.

Risk Management Committee

The Board established the risk management committee (the "Risk Management Committee") on 21 October 2014 which comprises two independent non-executive Directors, namely Mr. Enzo Barazetti and Madam Ji Lingling and one executive Director, namely, Madam Zhou Ning. Madam Zhou Ning is the chairlady of the Risk Management Committee. Details of the terms of reference of the Risk Management Committee are set out on the Company's website and the website of the Stock Exchange.

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

During the Period Under Review, no Risk Management Committee meeting was held.

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

Subsequent to the Listing, as a risk management policy, the Company had engaged a firm of international legal counsel to advise on laws of the Sanctioned Countries in order to enable the Company to comply with the Undertaking given by the Company to the Stock Exchange as contained in the prospectus of the Company dated 28 October 2014.

ATTENDANCE RECORDS OF BOARD AND BOARD COMMITTEE MEETINGS

Prior to the Listing, the Board had held meetings to approve the matters of the Company, in particular, those relating to the Listing and the Global Offering. During the Period Under Review, which covered a short period of less than two months, only one meeting of a committee formed by the Board was held for the purpose of approving the exercise of the over-allotment option subsequent to the Listing. Prior notice of the board meeting was despatched to the Directors setting out the matters to be discussed. At the meeting, the Directors, namely Mr. Ho Kwok Keung, Mars and Madam Zhou Ning, were provided with the relevant documents to be discussed and approved. The company secretary was responsible for keeping minutes for meetings of the Board and Board Committees.

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 AND SENIOR MANAGEMENT EMOLUMENTS

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

Emoluments Band	For the year ended 31 December 2014
HK$1,000,000 and below	8
HK$1,000,001 - HK$1,500,000	1
HK$1,500,001 - HK$2,000,000	2
HK$2,000,001 and above	2
	13

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.

CORPORATE GOVERNANCE REPORT

TRAINING AND DEVELOPMENT OF DIRECTORS

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

TRAINING FOR COMPANY SECRETARY

The Board is of the view that Mr. Chen Wai Chung, Edmund ("Mr. Chen"), the company secretary and also an employee of the Company, is qualified and has appropriate experience to discharge his duties. Mr. Chen had received 30 hours of relevant professional training during the Year. The Company will provide Mr. Chen with sufficient resources to receive not less than 15 hours of professional training for every financial year as required by the rule 3.29 of the Listing Rules.

DIRECTOR'S RESPONSIBILITY FOR THE 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 Period Under Review is set out in the section headed "Independent Auditor's Report" on page 57 and page 58 of this Annual Report.

INSURANCE ON DIRECTOR'S AND OFFICERS' LIABILITIES

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

INTERNAL CONTROL

The internal control system is implemented to minimise the risks to which the Group is exposed, to improve the Group's corporate governance, to prevent recurrence of the non-compliance incidents and to use as a management tool for the day-to-day operation of business of the Group. The system can only provide reasonable but not absolute assurance against misstatement or losses.

During the Year, the Board has conducted a review of the effectiveness of the internal control system of the Group. The review covered the financial, operational and compliance controls and risk management aspects of the Group. The Board considered that the Company's internal control system is adequate and effective.

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

As disclosed in the prospectus of the Company dated 28 October 2014 (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 (the "Covenantors") have given non-competition undertaking (the "Non-competition Undertaking") in favour of the Company on 21 October 2014 pursuant to which each of the Covenantors has, among other matters, undertaken with the Company that each of the Covenantors and their respective associates (other than the Group) shall not engaged in any business which will or may compete with the business currently and from time to time engaged by the Group. Details of the Non-competition Undertaking have been set out in the paragraph headed "Relationship with our 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 2014. 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 2014.

REMUNERATION TO THE COMPANY'S AUDITOR

For the Year, apart from the provision of audit services, the Company's auditors, PricewaterhouseCoopers, also provided other services to the Group, details of which are set out below:

Services Rendered	For the year ended 31 December 2014 RMB'000
2014 annual audit service	**1,715**
Services relating to the listing of the Company	**11,344**
Non-audit services*	**634**
Total	**13,693**

* Non-audit services primarily relate to advisory services on tax and internal controls.

CORPORATE GOVERNANCE REPORT

THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY MEETING

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Shareholders and public investors may direct their enquiries to the Board to Mr. Chen Wai Chung, Edmund, the company secretary of the Company, by post at Room 1801, Building B Chaowai Men Office Building, No. 26 Chaowai Street, Chaoyang District, Beijing, PRC, 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

24 March 2015

INDEPENDENT AUDITOR'S REPORT

pwc

To the shareholders of Austar Lifesciences Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Austar Lifesciences Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 131, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2015

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**38,545**	33,103
Land use rights	7	**6,100**	6,250
Intangible assets	8	**1,638**	1,423
Investments in joint ventures	10	**17,971**	19,706
Available-for-sale financial assets	11	**60**	60
Deferred income tax assets	12	**5,668**	8,837
Total non-current assets		**69,982**	69,379
Current assets			
Inventories	13	**69,113**	74,550
Trade and notes receivables	15	**217,492**	201,507
Prepayments and other receivables	16	**38,882**	32,883
Amounts due from customers for contract work	14	**87,128**	59,270
Available-for-sale financial assets	11	**–**	25,018
Restricted cash	17	**4,169**	4,534
Cash and cash equivalents	17	**382,624**	139,712
Total current assets		**799,408**	537,474
Total assets		**869,390**	606,853

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	18	**4,071**	–
Reserves	19	**359,645**	2,239
Retained earnings		**185,339**	126,135
		549,055	128,374
Non-controlling interests		**1**	1
Total equity		**549,056**	128,375
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	12	**15,671**	12,279
Total non-current liabilities		**15,671**	12,279
Current liabilities			
Trade and other payables	21	**201,601**	369,907
Amounts due to customers for contract work	14	**60,077**	55,020
Short-term borrowings	20	**35,000**	20,000
Current income tax liabilities		**7,985**	21,272
Total current liabilities		**304,663**	466,199
Total liabilities		**320,334**	478,478
Total equity and liabilities		**869,390**	606,853
Net current assets		**494,745**	71,275
Total assets less current liabilities		**564,727**	140,654

BALANCE SHEET

	Note	As at 31 December 2014 RMB'000
ASSETS		
Non-current assets		
Investment in a subsidiary	9	**97,870**
Current assets		
Prepayments and other receivables	16	**29,584**
Cash and cash equivalents	17	**320,280**
Total current assets		**349,864**
Total assets		**447,734**
EQUITY		
Share capital	18	**4,071**
Reserves	19	**409,616**
Retained earnings		**26,088**
		439,775
LIABILITIES		
Current liabilities		
Trade and other payables	21	**7,959**
Total liabilities and current liabilities		**7,959**
Total equity and liabilities		**447,734**
Net current assets		**341,905**
Total assets less current liabilities		**439,775**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Revenue	5	679,750	705,153
Cost of sales	22	(451,143)	(490,187)
Gross profit		228,607	214,966
Selling and marketing expenses	22	(65,134)	(72,104)
Administrative expenses	22	(57,278)	(47,849)
Research and development expenses	22	(23,594)	(23,897)
Other income	23	2,097	1,130
Other losses	24	(288)	(46)
Operating profit		84,410	72,200
Interest income	26	1,208	1,256
Finance expenses	26	(2,017)	(1,298)
Finance expenses – net		(809)	(42)
Share of profit of joint ventures	10	4,224	4,495
Profit before income tax		87,825	76,653
Income tax expense	27	(22,632)	(23,082)
Profit for the year		65,193	53,571
Profit attributable to:			
The owners of the Company		65,193	53,571
Non-controlling interests		–	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

	Note	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		(3,020)	1,871
Share of other comprehensive income of joint ventures		(126)	326
Revaluation of available-for-sale financial assets		–	18
Reclassification to net income of net gains on available-for-sale financial assets		(18)	–
Other comprehensive income for the year, net of tax		(3,164)	2,215
Total comprehensive income for the year		62,029	55,786
Total comprehensive income attributable to:			
The owners of the Company		62,029	55,787
Non-controlling interests		–	(1)
		62,029	55,786
Earnings per share for profit attributable to the owners of the Company – basic and diluted (RMB)	28	0.17	0.14
Dividends	29	(5,989)	–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company							
	Note	Share capital RMB'000	Capital surplus RMB'000	Other reserve 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 2013		–	(16,411)	–	72,564	16,434	72,587	2	72,589
Comprehensive income									
Profit for the year		–	–	–	53,571	–	53,571	–	53,571
Other comprehensive income									
Currency translation differences		–	–	–	–	1,872	1,872	(1)	1,871
Share of other comprehensive income of joint ventures	10	–	–	–	–	326	326	–	326
Revaluation of available-for-sale financial assets	11	–	–	18	–	–	18	–	18
Total comprehensive income		–	–	18	53,571	2,198	55,787	(1)	55,786
Balance at 31 December 2013		–	(16,411)	18	126,135	18,632	128,374	1	128,375
Balance at 1 January 2014		**–**	**(16,411)**	**18**	**126,135**	**18,632**	**128,374**	**1**	**128,375**
Comprehensive income									
Profit for the year		**–**	**–**	**–**	**65,193**	**–**	**65,193**	**–**	**65,193**
Other comprehensive income									
Currency translation differences		**–**	**–**	**–**	**–**	**(3,020)**	**(3,020)**	**–**	**(3,020)**
Share of other comprehensive income of joint ventures	10	**–**	**–**	**–**	**–**	**(126)**	**(126)**	**–**	**(126)**
Reclassification to net income of gain on available-for-sale financial assets	11	**–**	**–**	**(18)**	**–**	**–**	**(18)**	**–**	**(18)**
Total comprehensive income		**–**	**–**	**(18)**	**65,193**	**(3,146)**	**62,029**	**–**	**62,029**
Transaction with the owners									
Issue of shares	18	**4,071**	**–**	**–**	**–**	**–**	**4,071**	**–**	**4,071**
Liability waived by shareholder	19(a)	**–**	**46,561**	**–**	**–**	**–**	**46,561**	**–**	**46,561**
Dividends to shareholders	29	**–**	**–**	**–**	**(5,989)**	**–**	**(5,989)**	**–**	**(5,989)**
Share premium	19(b)	**–**	**314,009**	**–**	**–**	**–**	**314,009**	**–**	**314,009**
Total transaction with the owners, recognised directly in equity		**4,071**	**360,570**	**–**	**(5,989)**	**–**	**358,652**	**–**	**358,652**
Balance at 31 December 2014		**4,071**	**344,159**	**–**	**185,339**	**15,486**	**549,055**	**1**	**549,056**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Year ended 31 December 2014 RMB'000**	Year ended 31 December 2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	**(36,315)**	86,673
Income tax paid		**(29,357)**	(16,459)
Interest received		**1,271**	1,193
Net cash (used in)/generated from operating activities		**(64,401)**	71,407
Cash flows from investing activities			
Investment in a joint venture		**–**	(1,708)
Dividend received from joint ventures	10	**5,929**	716
Purchases of property, plant and equipment	6	**(11,769)**	(11,049)
Purchases of intangible assets	8	**(639)**	(735)
Proceeds from disposal of property, plant and equipment		**99**	37
Purchase of available-for-sale financial assets	11	**(10,000)**	(75,000)
Disposal of available-for-sale financial assets	11	**35,000**	50,000
Investment income received from available-for-sale financial assets	11	**94**	443
Loan to a joint venture	16	**–**	(7,253)
Net cash generated from/(used in) investing activities		**18,714**	(44,549)
Cash flows from financing activities			
Interest paid		**(2,091)**	(1,373)
Proceeds from funds provided by the then parent company	32(b)(vii)	**–**	17,556
Issuance of new shares		**340,984**	–
Share issuance cost		**(21,299)**	–
Repayments of funds provided by the then parent company	32(b)(vii)	**(37,833)**	(1,929)
Proceeds from borrowings		**35,000**	–
Repayments of borrowings		**(20,000)**	(4,000)
Dividends paid to company's shareholder		**(5,989)**	–
Net cash generated from financing activities		**288,772**	10,254
Net increase in cash and cash equivalents		**243,085**	37,112
Cash and cash equivalents at beginning of year		**139,712**	102,611
Exchange losses on cash and cash equivalents		**(173)**	(11)
Cash and cash equivalents at end of year		**382,624**	139,712

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

(a) General information

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

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

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

In preparation for the initial listing of the Shares on the Stock Exchange, the Company underwent a Group reorganisation (the "Reorganisation"). The following steps were carried out under the Reorganisation:

(1) The Company was incorporated on 9 January 2014 in the Cayman Islands with limited liability. On the same date, (i) the one subscriber Share, allotted and issued as fully paid at par, was transferred to SFH; (ii) 889,999 Shares were allotted and issued to SFH for cash at par; (iii) 10,000 Shares were allotted and issued to Honour Choice Ventures Limited, a company incorporated in the BVI with limited liability and wholly owned by Madam Gu Xun, the spouse of Mr. Mars Ho for cash at par; and (iv) 100,000 Shares were allotted and issued to True Worth Global Limited, a company incorporated in the BVI with limited liability and wholly owned by Mr. Ho Kin Hung, an executive Director, for cash at par.

(2) On 16 June 2014, the Company subscribed for 100 shares of US$1.00 par value each in Austar Equipment Limited ("Austar BVI") a company incorporated in the BVI with limited liability, representing 50% of the issued share capital of Austar BVI as enlarged by the subscription of such new shares for cash at par. After completion of the subscription, Austar BVI was owned as to 50% by Austar International Holdings Limited ("AIHL"), a company incorporated in the BVI and controlled by the Controlling Shareholder, and as to 50% by the Company.

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION (Continued)

(a) General information (Continued)

(3) On 20 June 2014, Austar BVI repurchased and cancelled all the 100 shares of US$1.00 par value each in Austar BVI held by AIHL, representing 50% of the issued share capital of Austar BVI and the entire equity interest owned by AIHL in Austar BVI, at the consideration of US$100 which was based on the par value of such shares. Upon completion of the share repurchase, the Company became the sole shareholder of Austar.

Immediately prior to and after the Reorganisation, the Business has been held by Austar BVI. The Business is mainly conducted through Austar BVI and its subsidiaries. Pursuant to the Reorganisation, Austar BVI and the Business are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Business with no change in management of such Business and the ultimate owners of the Business remain the same. Accordingly, the consolidated financial information of the companies now comprising the Group is presented using the carrying values of the Business under Austar BVI for all the years presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap.32) for this financial year and the comparative period.

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

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

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised.

The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

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

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

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

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations under common control

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

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amounts of the net assets obtained and the carrying amount of the consideration paid is recorded in reserve. All direct transaction cost attributable to the business combination is recorded in the income statements 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)

2.2 Subsidiaries (Continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

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

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

(d) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is 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.

2.2.2 Separate financial statements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Joint arrangement

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

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

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

2.4 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.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates (the "functional currency").

The consolidated financial statements are presented in Renminbi (RMB).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

(iv) disposal of foreign operation and partial disposal.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

(iv) disposal of foreign operation and partial disposal (Continued)

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 associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

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

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

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

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

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 losses' in the statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Land use rights

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

2.8 Intangible assets

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

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

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

2.11 Financial assets

2.11.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise: 'trade and notes receivables', 'other receivables', 'restricted cash', and 'cash and cash equivalents' in the balance sheet (Notes 2.15 and 2.16).

(b) Available-for-sale financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.2 Recognition and measurement

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

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

2.12 Offsetting financial instruments

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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

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

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

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

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

2.16 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.

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Trade payables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has a contractual or 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 profit or loss in the period in which they are incurred.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

(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 and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits

Pension and social obligations

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

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

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

2.23 Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Construction contracts

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition

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

(a) Construction contracts

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

(b) Sales of goods

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

(c) Rendering of services

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

2.26 Government Grants

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Interest income

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

2.28 Dividend income

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

2.29 Lease

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

As at 31 December 2014, if Hong Kong dollar had weakened/strengthened by 1% against the US dollar with all other variables held constant, profit before tax for the years would have been RMB104,000 (as at 31 December 2013: RMB771,000) lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated receivables and payable held by the Group entities with their functional currency as Hong Kong dollar.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

As the majority of the cash at bank balance and restricted cash are placed with state-owned banks which management believes are of high credit quality. The corresponding credit risk is relatively low. Therefore, the Group's credit risk arises primarily from trade and notes receivables. The Group has no significant concentrations of credit risk. Ageing analysis of the Group's trade receivables is disclosed in Note 15. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. Management does not expect any losses from non-performance by these counterparties except for those recognised.

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

(c) Liquidity risk

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

	Less than 1 year RMB'000
As at 31 December 2013	
Trade payables	121,722
Other payables	98,569
Short-term borrowings	20,677
	240,968

	Less than 1 year RMB'000
As at 31 December 2014	
Trade payables	**116,304**
Other payables	**20,889**
Short-term borrowings	**35,792**
	172,985

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

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

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

The gearing ratio as at 31 December 2014 and 2013 are as follows:

	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Total debt	**35,000**	20,000
Total equity	**549,056**	128,375
Total capital	**584,056**	148,375
Gearing ratio	**6%**	16%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2013 and 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets			
As at 31 December 2013			
Available-for-sale financial assets	–	–	25,078
As at 31 December 2014			
Available-for-sale financial assets	**–**	**–**	**60**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value these financial instruments include 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) Construction contracts

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

(b) Impairment of trade and other receivables

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

(c) Income taxes and deferred tax

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

5. SEGMENT INFORMATION

The chief operating decision-makers ("CODM") have been identified as the Chief Executive Office , the vice presidents and the Directors of the Company 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 2014 are as follows:

	Group						
	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	356,819	166,274	48,406	51,078	68,172	25,154	715,903
Inter-segment revenue	(14,756)	(20,111)	–	(268)	(1,018)	–	(36,153)
Revenue	342,063	146,163	48,406	50,810	67,154	25,154	679,750
Cost of sales	(252,608)	(97,868)	(27,310)	(21,002)	(38,791)	(13,564)	(451,143)
Segment results							
Gross profit	89,455	48,295	21,096	29,808	28,363	11,590	228,607
Other segment items							
Amortisation	525	25	10	10	–	4	574
Depreciation	3,071	2,159	737	771	152	307	7,197
Provision/(reversal) of impairment on trade and other receivables	(3,033)	(80)	(99)	(104)	146	(41)	(3,211)
Impairment provision on inventory	185	11	–	–	26	–	222
Share of profit of joint ventures	2,894	–	–	–	1,330	–	4,224

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2013 are as follows:

	Group						
	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	391,882	172,510	44,413	47,652	52,765	26,790	736,012
Inter-segment revenue	(10,885)	(19,965)	–	–	(9)	–	(30,859)
Revenue	380,997	152,545	44,413	47,652	52,756	26,790	705,153
Cost of sales	(296,379)	(105,507)	(30,037)	(16,186)	(29,586)	(12,492)	(490,187)
Segment results							
Gross profit	84,618	47,038	14,376	31,466	23,170	14,298	214,966
Other segment items							
Amortisation	360	18	5	5	–	3	391
Depreciation	3,148	1,172	274	691	85	155	5,525
Provision of impairment on trade and other receivables	1,739	988	387	390	362	279	4,145
Impairment provision on inventory	–	91	–	–	27	–	118
Share of profit of joint ventures	3,701	–	–	–	794	–	4,495

5. SEGMENT INFORMATION (Continued)

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Liquid and Bioprocess System	**89,455**	84,618
Clean Room and Automation Control and Monitoring System	**48,295**	47,038
Powder and Solid System	**21,096**	14,376
GMP Compliance Service	**29,808**	31,466
Life Science Consumables	**28,363**	23,170
Distribution and Agency of Pharmaceutical Equipment	**11,590**	14,298
Total gross profit for reportable segments	**228,607**	214,966
Selling and marketing expenses	**(65,134)**	(72,104)
Administrative expenses	**(57,278)**	(47,849)
Research and development expenses	**(23,594)**	(23,897)
Other income	**2,097**	1,130
Other losses	**(288)**	(46)
Finance expenses – net	**(809)**	(42)
Share of profit from joint ventures	**4,224**	4,495
Profit before income tax	**87,825**	76,653

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2014 and 2013 are as follows:

	Group			
	As at 31 December 2014		As at 31 December 2013	
	Total assets RMB'000	**Investments accounted for using equity method RMB'000**	Total assets RMB'000	Investments accounted for using equity method RMB'000
Liquid and Bioprocess System	**277,951**	**14,823**	287,064	17,866
Clean Room and Automation Control and Monitoring System	**90,887**	**–**	99,092	–
Powder and Solid System	**33,230**	**–**	18,785	–
GMP Compliance Service	**32,865**	**–**	19,093	–
Life Science Consumables	**38,046**	**3,148**	26,938	1,840
Distribution and Agency of Pharmaceutical Equipment	**9,518**	**–**	17,561	–
Total segment assets	**482,497**	**17,971**	468,533	19,706
Unallocated				
Deferred income tax assets	**5,668**		8,837	
Headquarter assets	**381,225**		129,483	
Total assets	**869,390**		606,853	

5. SEGMENT INFORMATION (Continued)

Geographical information

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Revenue		
Mainland China	**620,008**	662,110
Other locations	**59,742**	43,043
	679,750	705,153

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Non-current assets other than financial instruments and deferred tax assets		
Mainland China	**46,021**	40,776
Other locations	**18,233**	19,706
	64,254	60,482

6. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2013					
Opening net book value	11,535	10,863	1,191	4,322	27,911
Additions	–	5,357	811	4,881	11,049
Disposal	–	(84)	–	(58)	(142)
Depreciation charge	(742)	(1,771)	(532)	(2,670)	(5,715)
Closing net book value	10,793	14,365	1,470	6,475	33,103
As at 31 December 2013					
Cost	16,443	21,359	3,003	11,925	52,730
Accumulated depreciation	(5,650)	(6,994)	(1,533)	(5,450)	(19,627)
Net book value	10,793	14,365	1,470	6,475	33,103
Year ended 31 December 2014					
Opening net book value	**10,793**	**14,365**	**1,470**	**6,475**	**33,103**
Additions	**–**	**3,465**	**452**	**8,964**	**12,881**
Disposal	**–**	**–**	**(24)**	**(99)**	**(123)**
Depreciation charge	**(742)**	**(2,162)**	**(430)**	**(3,982)**	**(7,316)**
Closing net book value	**10,051**	**15,668**	**1,468**	**11,358**	**38,545**
As at 31 December 2014					
Cost	**16,443**	**24,824**	**3,217**	**20,243**	**64,727**
Accumulated depreciation	**(6,392)**	**(9,156)**	**(1,749)**	**(8,885)**	**(26,182)**
Net book value	**10,051**	**15,668**	**1,468**	**11,358**	**38,545**

As at 31 December 2014 and 2013, the Group's buildings were pledged as security for short-term borrowings (Note 20).

7. LAND USE RIGHTS

	Group
	RMB'000
Year ended 31 December 2013	
Opening net book value	6,400
Amortisation charge	(150)
Closing net book value	6,250
As at 31 December 2013	
Cost	7,500
Accumulated amortisation	(1,250)
Net book value	6,250
Year ended 31 December 2014	
Opening net book value	**6,250**
Amortisation charge	**(150)**
Closing net book value	**6,100**
As at 31 December 2014	
Cost	**7,500**
Accumulated amortisation	**(1,400)**
Net book value	**6,100**

The Group's interests in land use rights represent prepaid operating lease payments. All of the Group's land use rights are located in the PRC and with original lease period of 50 years. As at 31 December 2014 and 2013, the Group's land use rights were pledged as security for short-term borrowings (Note 20).

NOTES TO THE FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS

	Group
	Software and others
	RMB'000
Year ended 31 December 2013	
Opening net book value	929
Additions	735
Amortisation charge	(241)
Closing net book value	1,423
As at 31 December 2013	
Cost	2,148
Accumulated amortisation	(725)
Net book value	1,423
Year ended 31 December 2014	
Opening net book value	**1,423**
Additions	**639**
Amortisation charge	**(424)**
Closing net book value	**1,638**
As at 31 December 2014	
Cost	**2,893**
Accumulated amortisation	**(1,255)**
Net book value	**1,638**

9. INVESTMENTS IN SUBSIDIARIES

	Company
	Year ended 31 December 2014 RMB'000
Investment, at cost:	
Unlisted shares	**97,870**

9. INVESTMENTS IN SUBSIDIARIES (Continued)

Investment in subsidiaries is recorded at cost, which is the carrying value of Austar BVI's equity as shown in its separate financial statements upon completion of the Reorganisation. Please refer to Note 19 for details.

The following is a list of the principal subsidiaries as at 31 December 2014:

Company name	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation	The kind of legal entity
Directly owned:					
Austar BVI	BVI/25 January 2005	US$100	100%	Investment holding/BVI	
Indirectly owned:					
Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. (上海奧星製藥技術裝備有限公司, "Shanghai Austar")	Shanghai, the PRC/ 20 August 2003	US$11,490,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/ the PRC	A wholly foreign owned enterprise established in the PRC
Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. (奧星製藥設備(石家莊)有限公司, "Austar SJZ")	Shijiazhuang, the PRC/ 9 July 2004	RMB20,060,000	100%	Provision of integrated engineering solutions pharmaceutical equipment manufacturing, maintenance, GMP compliance service/ the PRC	A limited liability company established in the PRC
Austar Hansen Lifesciences (Shanghai) Co., Ltd. (奧星衡迅生命科技(上海)有限公司, "Austar Hansen")	Shanghai, the PRC/ 29 March 2001	RMB1,660,000	100%	Distribution and agency/the PRC	A limited liability company established in the PRC
Austar Clean Equipment (Shanghai) Co., Ltd. (奧星潔淨設備(上海)有限公司, "Austar CE")	Shanghai, the PRC/ 12 November 2007	RMB2,155,446	100%	Provision of integrated solution of clean room enclosure system/the PRC	A company with limited liability established in the PRC
Austar Pharmaceutical Process Systems Limited ("APPS")	Hong Kong/ 20 April 2012	HK$6,000,000	100%	Distribution and agency/Hong Kong	
Austar Europe S.r.l ("Austar Europe")	Italy/27 July 2012	EUR20,000	99%	Provision of consulting services/Italy	
Austar Pharmaceutical Process System (Shijiazhuang) Co., Ltd (奧星制藥工藝系統(石家庄)有限公司，"APPS (SJZ)")	Shijiazhuang, the PRC/ 6 May 2014	–	100%	Pre-operation/the PRC	A sino-foreign joint venture enterprise established in the PRC

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

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN JOINT VENTURES

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Beginning of the year	**19,706**	15,918
Share of profit	**4,224**	4,495
Share of other comprehensive income	**(126)**	326
Dividend received	**(5,929)**	(716)
Currency translation differences	**96**	(317)
End of the year	**17,971**	19,706

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

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

Note:

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

(b) PALL-AUSTAR JV is a strategic partnership for the Group, which develops and produces life science consumables via its subsidiary in the PRC. PALL-AUSTAR JV was acquired by APPS, a subsidiary of the Group, from Austar PharmMed Consumable Ltd. ("Austar PMC (BVI)"), a company controlled by the Controlling Shareholder, at the end of 2012 with a cash consideration of US$270, 000 (equivalent to approximately RMB1,708,000). The difference between the share of the fair value of net assets and the consideration amounted to RMB666, 000 was deemed as distribution to the owners.

10. INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information for joint ventures

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

Summarised balance sheets of joint ventures

	STERIS-AUSTAR JV		PALL-AUSTAR JV		Total	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000	**As at 31 December 2014 RMB'000**	As at 31 December 2013 RMB'000	**As at 31 December 2014 RMB'000**	As at 31 December 2013 RMB'000
Current						
Cash and cash equivalents	**19,220**	21,440	**3,114**	2,843	**22,334**	24,283
Other current assets	**22,628**	25,305	**9,607**	6,875	**32,235**	32,180
Total current assets	**41,848**	46,745	**12,721**	9,718	**54,569**	56,463
Financial liabilities (excluding trade payables)	**(7,530)**	(8,388)	**(18,064)**	(9,654)	**(25,594)**	(18,042)
Other current liabilities (including trade payables)	**(6,501)**	(4,265)	**(1,778)**	(1,337)	**(8,279)**	(5,602)
Total current liabilities	**(14,031)**	(12,653)	**(19,842)**	(10,991)	**(33,873)**	(23,644)
Non-current						
Assets	**2,435**	2,370	**14,501**	12,019	**16,936**	14,389
Liabilities	**–**	–	**(2,134)**	(7,679)	**(2,134)**	(7,679)
Net assets	**30,252**	36,462	**5,246**	3,067	**35,498**	39,529

10. INVESTMENTS IN JOINT VENTURES (Continued)

Summarised statements of comprehensive income

	STERIS-AUSTAR JV		PALL-AUSTAR JV		Total	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000	**Year ended 31 December 2014 RMB'000**	Year ended 31 December 2013 RMB'000	**Year ended 31 December 2014 RMB'000**	Year ended 31 December 2013 RMB'000
Revenue	**37,690**	54,991	**19,692**	13,626	**57,382**	68,617
Depreciation and amortisation	**(296)**	(286)	**(1,233)**	(1,179)	**(1,529)**	(1,465)
Interest income	**48**	89	**–**	277	**48**	366
Interest expense	**–**	–	**–**	(614)	**–**	(614)
Profit before income tax	**8,182**	9,297	**3,178**	2,179	**11,360**	11,476
Income tax expense	**(2,275)**	(1,744)	**(963)**	(855)	**(3,238)**	(2,599)
Profit for the year	**5,907**	7,553	**2,215**	1,324	**8,122**	8,877
Other comprehensive income	**(214)**	655	**(35)**	8	**(249)**	663
Total comprehensive income	**5,693**	8,208	**2,180**	1,332	**7,873**	9,540
Dividends received from joint ventures	**5,929**	716	**–**	–	**5,929**	716

10. INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information

	STERIS-AUSTAR JV		PALL-AUSTAR JV		Total	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000	**As at 31 December 2014 RMB'000**	As at 31 December 2013 RMB'000	**As at 31 December 2014 RMB'000**	As at 31 December 2013 RMB'000
Opening net assets 1 January	**36,462**	30,362	**3,066**	1,735	**39,528**	32,097
Acquisition	**–**	–	**–**	–	**–**	–
Profit for the year	**5,907**	7,553	**2,215**	1,324	**8,122**	8,877
Dividends	**(12,100)**	(1,461)	**–**	–	**(12,100)**	(1,461)
Other comprehensive income	**(214)**	655	**(35)**	8	**(249)**	663
Currency translation difference	**197**	(647)	**–**	–	**197**	(647)
Closing net assets	**30,252**	36,462	**5,246**	3,067	**35,498**	39,529
Interest in joint ventures	**14,823**	17,866	**3,148**	1,840	**17,971**	19,706
Carrying value	**14,823**	17,866	**3,148**	1,840	**17,971**	19,706

NOTES TO THE FINANCIAL STATEMENTS

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Non-current		
Beginning and end of the year (Note(a))	**60**	60
Current		
Beginning of the year	**25,018**	–
Additions	**10,000**	75,000
Revaluation gains – realised (Note 24)	**94**	443
– unrealised	**(18)**	18
Disposals	**(35,094)**	(50,443)
End of the year (Note(b))	**–**	25,018

(a) Non-current available-for-sale financial assets represent 0.09% equity investment in Nanjing Bo Jian Technology Co., Ltd. (南京博健科技有限責任公司) held by Shanghai Austar, a wholly-owned subsidiary of the Group.

(b) Current available-for-sale financial assets in 2013 represented investment funds managed by banks. The investment funds mainly invest in government bonds, central bank notes and other money marketed instruments of relatively lower risk. The Group disposed of all the investment funds by February 2014.

12. DEFERRED INCOME TAX

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Deferred tax assets		
– Deferred income tax assets to be recovered within 12 months	**3,822**	5,258
– Deferred income tax assets to be recovered after more than 12 months	**1,846**	3,579
	5,668	8,837
Deferred tax liabilities		
– Deferred income tax liabilities to be recovered after more than 12 months	**(15,671)**	(12,279)
	(10,003)	(3,442)

12. DEFERRED INCOME TAX (Continued)

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:

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Beginning of the year	**(3,442)**	964
Charged to the consolidated statements of comprehensive income (Note 27)	**(6,561)**	(4,406)
End of the year	**(10,003)**	(3,442)

The analysis of deferred income tax assets is as follows:

	Group			
	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 2012	–	3,834	4,148	7,982
(Charged)/credited to the consolidated statement of comprehensive income	–	(255)	1,110	855
As at 31 December 2013	–	3,579	5,258	8,837
Credited/(charged) to the consolidated statement of comprehensive income	71	(1,804)	(1,436)	(3,169)
As at 31 December 2014	**71**	**1,775**	**3,822**	**5,668**

12. DEFERRED INCOME TAX (Continued)

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 2014, the Group did not recognise deferred income tax assets of RMB286,000 (2013: RMB706,000) in respect of losses amounting to RMB1,734,000 (2013: RMB4,279,000) that can be carried forward against future taxable income.

The analysis of deferred income tax liabilities is as follows:

	Group
	Withholding tax
	RMB'000
As at 31 December 2012	(7,018)
Charged to the consolidated statement of comprehensive income	(5,261)
As at 31 December 2013	(12,279)
Charged to the consolidated statement of comprehensive income	(3,392)
As at 31 December 2014	**(15,671)**

13. INVENTORIES

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Raw materials	**35,302**	39,428
Work-in-progress	**21,636**	23,795
Finished goods	**13,327**	12,346
	70,265	75,569
Less: provision for impairment	**(1,152)**	(1,019)
	69,113	74,550

13. INVENTORIES (Continued)

Movements of provision for inventory obsolescence are analysed as follows:

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Beginning of the year	**(1,019)**	(901)
Addition	**(222)**	(118)
Write-off	**89**	–
End of the year	**(1,152)**	(1,019)

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

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Contract cost incurred plus recognised profit less recognised losses	**423,924**	269,610
Less: Progress billings	**(396,873)**	(265,360)
Contract work in progress	**27,051**	4,250
Representing:		
Amounts due from customers for contract work	**87,128**	59,270
Amounts due to customers for contract work	**(60,077)**	(55,020)
	27,051	4,250

NOTES TO THE FINANCIAL STATEMENTS

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Contract revenue recognised as revenue in the year	**422,342**	422,023

15. TRADE AND NOTES RECEIVABLES

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Trade receivables (Note (b))	**203,921**	184,939
Notes receivable (Note (a))	**23,798**	33,412
	227,719	218,351
Less: provision for impairment	**(10,227)**	(16,844)
	217,492	201,507

Note:

(a) Notes receivable are all bank acceptance with maturity dates within one year.

(b) Ageing analysis of gross trade receivables at the respective balance sheet dates is as follows:

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Within 3 months	**62,795**	97,595
3 to 6 months	**61,023**	24,436
6 months to 1 year	**43,981**	20,466
1 to 2 years	**25,705**	28,350
2 to 3 years	**7,824**	10,132
Over 3 years	**2,593**	3,960
	203,921	184,939

15. TRADE AND NOTES RECEIVABLES (Continued)

Note: (Continued)

(b) (Continued)

Most of the trade receivables are due within 90 days since issuance of the invoices, except for retention money which would normally be collected on one year after the completion of the sales.

As at 31 December 2014, there are retention money receivables of RMB19,355,000 (31 December 2013: RMB20,057,000).

As at 31 December 2014 and 2013, the past due but not impaired trade receivables due from external customers relate to customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Within 3 months	**25,372**	74,619
3 to 6 months	**41,499**	17,467
6 months to 1 year	**27,589**	15,941
1 to 2 years	**19,420**	22,501
2 to 3 years	**7,539**	4,540
Over 3 years	**1,630**	2,316
	123,049	137,384

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND NOTES RECEIVABLES (Continued)

Note: (Continued)

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Beginning of the year	**(16,844)**	(12,717)
Addition	**(167)**	(4,127)
Reversal	**3,371**	–
Write-off	**3,413**	–
End of the year	**(10,227)**	(16,844)

As at 31 December 2014 and 2013, the carrying amounts of trade and notes receivables approximated their fair values due to short maturity.

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

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
RMB	**214,209**	199,482
US$	**3,080**	1,795
EUR	**203**	230
	217,492	201,507

16. PREPAYMENTS AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**
Prepayments to suppliers	**18,698**	16,251	**–**
Staff advance	**2,761**	2,649	**–**
Deposits as guarantee for bidding	**7,141**	3,753	**–**
Loan and interest to PALL-AUSTAR JV (Note 32(c)(i))	**7,659**	7,253	**–**
Dividends receivable from Austar BVI	**–**	–	**29,584**
Others	**2,830**	3,212	**–**
	39,089	33,118	**29,584**
Less: provision for impairment	**(207)**	(235)	**–**
	38,882	32,883	**29,584**

(a) As at 31 December 2014 and 2013, the carrying amounts of other receivables approximated their fair values due to short period of maturity.

(b) On 31 December 2014, the board of director of Austar BVI approved to declare a dividend of totalling HK$37,500,000 (equivalent to RMB29,584,000) to the Company.

NOTES TO THE FINANCIAL STATEMENTS

16. PREPAYMENTS AND OTHER RECEIVABLES – GROUP AND COMPANY

(Continued)

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

	Group As at 31 December	
	2014	2013
	RMB'000	RMB'000
Beginning of the year	**(235)**	(217)
Addition	**(2)**	(18)
Reversal	**9**	–
Write-off	**21**	–
End of the year	**(207)**	(235)

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

	Group As at 31 December		Company As at 31 December
	2014	2013	**2014**
	RMB'000	RMB'000	**RMB'000**
RMB	**11,162**	9,379	**–**
EUR	**420**	–	**–**
HK$	**–**	–	**29,584**
US$	**8,602**	7,253	**–**
	20,184	16,632	**29,584**

17. CASH AND BANK BALANCES

	Group As at 31 December		Company As at 31 December
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**
Restricted bank deposits (Note(a))	**4,169**	4,534	**–**
Cash and cash equivalents			
– Cash on hand	**148**	78	**–**
– Deposits in bank	**382,476**	139,634	**320,280**
	382,624	139,712	**320,280**
	386,793	144,246	**320,280**

(a) The restricted bank deposits were held as security for letter of credit.

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

	Group As at 31 December		Company As at 31 December
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**
RMB	**91,475**	137,268	**29,869**
US$	**1,195**	5,755	**–**
EUR	**122**	628	**–**
HK$	**294,001**	595	**290,411**
	386,793	144,246	**320,280**

NOTES TO THE FINANCIAL STATEMENTS

18. SHARE CAPITAL – GROUP AND COMPANY

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary share RMB'000
Authorised:			
Ordinary shares of HK$0.01 each (i)	10,000	100	80
Increase ordinary shares of HK$0.01 each (ii)	9,990,000	99,900	79,081
Balance at 31 December 2014	10,000,000	100,000	79,161
Issued and fully paid:			
Issue of ordinary shares of HK$0.01 each upon incorporation(iii)	1,000	10	8
New shares issued under initial public offering (iv)	137,582	1,376	1,093
Capitalisation issue (v)	374,000	3,740	2,970
Balance at 31 December 2014	512,582	5,126	4,071

(i) The Company was incorporated in the Cayman Islands on 9 January 2014 with an authorised capital of HK$100,000 divided into 10,000,000 ordinary shares with a nominal value of HK$0.01 each.

(ii) On 21 October 2014, the shareholders resolved that the authorised share capital of the Company be increased from HK$100,000 to HK$10,000,000 by the creation of additional 990,000,000 shares of HK$0.01 each. Since the Company had not been legally incorporated as at 31 December 2013, there was no share capital presented as at 31 December 2013.

(iii) Upon the incorporation of the Company, 1,000,000 ordinary shares of a nominal value of HK$0.01 each were issued and allotted for cash totalling HK$10,000 (equivalent to approximately RMB8,000).

(iv) 137,582,000 shares of the Company with par value of HK$0.01 per share were issued and fully paid upon completion of its initial public offering. The resulting share capital was approximately RMB1,093,000.

(v) The Company issued and capitalised HK$3,740,000, equivalent to approximately RMB2,970,000, standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 374,000,000 shares.

The total authorised number of ordinary shares is 10,000,000,000 shares with a par value of HK$0.01 per share. The number of ordinary shares issued is 512,582,000 shares with nominal value of HK$0.01 per share. All issued shares are fully paid.

19. RESERVE – GROUP AND COMPANY

		Group As at 31 December		Company As at 31 December
	Note	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**
Capital Surplus	(a)	**30,150**	(16,411)	**97,870**
Share Premium	(b)	**314,009**	–	**314,009**
Other Reserve		**–**	18	**–**
Currency translation difference		**15,486**	18,632	**(2,263)**
Total		**359,645**	2,239	**409,616**

(a) Capital surplus

– Group

On 30 April 2014, AIHL, the Group's then parent company, partially waived the outstanding balance of the loan to the Group of HK$58.6 million (equivalent to RMB46.6 million)(Note 32(b)(vii)). The amount is therefore recognised as transaction with the owners in equity.

– Company

The capital surplus of the Company represented the difference between the consideration of US$100 acquiring the entire interest in Austar BVI and the carrying value of Austar BVI's net assets upon completion of the Reorganisation.

19. RESERVE – GROUP AND COMPANY (Continued)

(b) Share premium – Group and Company

	Group and Company
	As at 31 December 2014 RMB'000
New shares issued under initial public offering	339,883
Share issuance cost	(22,904)
Capitalisation Issue (Note 18(v))	(2,970)
Total	314,009

On 7 November 2014, the Company's shares were listed on the Stock Exchange. The total shares issued upon initiated public offering including over-allotment were 137,582,000 shares of HK$0.01 each at a price of HK$3.12 per share.

20. SHORT-TERM BORROWINGS

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Bank borrowings, secured	35,000	20,000

As at 31 December 2014, short-term bank borrowings were denominated in RMB and were secured by the Group's buildings (Note 6) and land use rights (Note 7), bearing interest of 6.30% (2013: 6.30%) per annum..

The Group has the following undrawn borrowing facilities:

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Expiring within one year	10,000	15,000

21. TRADE AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December
	2014	2013	**2014**
	RMB'000	RMB'000	**RMB'000**
Trade payables	**116,304**	121,722	**–**
Advances from customers	**25,917**	54,240	**–**
Payroll and welfare payable	**28,108**	37,903	**81**
Taxes other than income taxes payable	**3,616**	48,911	**–**
Warranty provision	**6,767**	8,562	**–**
Amount due to AIHL (Note 32(c)(ii))	**–**	84,395	**–**
Others	**20,889**	14,174	**7,878**
	201,601	369,907	**7,959**

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

	Group As at 31 December		Company As at 31 December
	2014	2013	**2014**
	RMB'000	RMB'000	**RMB'000**
Within 6 months	**109,832**	118,010	**7,959**
6 months to 1 year	**3,366**	2,704	**–**
1 to 2 years	**2,495**	342	**–**
2 to 3 years	**73**	316	**–**
Over 3 years	**538**	350	**–**
	116,304	121,722	**7,959**

(b) As at 31 December 2014 and 2013, the carrying amounts of trade and other payables approximated their fair values due to short maturity.

21. TRADE AND OTHER PAYABLES (Continued)

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

	Group As at 31 December		Company As at 31 December
	2014	2013	**2014**
	RMB'000	RMB'000	**RMB'000**
RMB	**161,251**	228,157	**–**
HK$	**8,117**	2,561	**7,894**
US$	**5,173**	84,395	**8**
EUR	**1,143**	554	**57**
	175,684	315,667	**7,959**

22. EXPENSE BY NATURE

	Group	
	Year ended 31 December 2014	Year ended 31 December 2013
	RMB'000	RMB'000
Raw materials	**328,871**	387,167
Staff costs, including directors' emoluments (Note 25)	**121,647**	119,701
Depreciation (Note 6)	**7,316**	5,715
Amortisation (Note 7, 8)	**574**	391
Sales tax and surcharges	**7,109**	7,506
Office expenses	**5,607**	3,460
Travel expenses	**35,287**	28,678
Freight and port charges	**8,776**	8,970
Promotion expenses	**7,389**	2,831
Warranty provision	**4,882**	9,314
(Reversal of)/impairment of receivables	**(3,211)**	4,145
Impairment of inventories	**222**	118
Auditors' remuneration:		
– PricewaterhouseCoopers	**1,715**	–
– Other auditors	**629**	650
Professional fees	**18,000**	6,624
Rental expenses	**9,569**	6,069
On-site subcontract cost	**13,099**	4,302
Other operating expenses	**29,668**	38,396
	597,149	634,037

23. OTHER INCOME

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Government subsidies	**1,657**	1,114
Others	**440**	16
	2,097	1,130

24. OTHER LOSSES

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Loss on disposal of property, plant and equipment	**(24)**	(105)
Exchange losses	**(314)**	(26)
Dividends from available-for-sale financial assets	**94**	443
Others	**(44)**	(358)
	(288)	(46)

25. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Salaries and bonuses	**96,402**	101,513
Pension and social obligations	**24,932**	17,906
Other welfare	**313**	282
	121,647	119,701

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Directors' emoluments

Directors' emoluments for the years ended 31 December 2014 and 2013 are set out as follows:

	Group				
	Fees	Salaries and allowances	Discretionary bonuses	Other benefits including pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014					
Executive Directors					
Ho Kwok Keung	**–**	**910**	**333**	**275**	**1,518**
Ho Kin Hung	**–**	**1,500**	**547**	**13**	**2,060**
Chen Yuewu	**–**	**777**	**1,244**	**45**	**2,066**
Zhou Ning	**–**	**231**	**134**	**72**	**437**
Non-Executive Directors					
Enzo Barazetti	**130**	**360**	**–**	**33**	**523**
Ji Lingling	**–**	**–**	**–**	**–**	**–**
Raco Ivan Jordanov	**19**	**–**	**–**	**–**	**19**
Chiu Hoi Shan	**19**	**–**	**–**	**–**	**19**
Cheung Lap Kei	**19**	**–**	**–**	**–**	**19**
Year ended 31 December 2013					
Executive Directors					
Ho Kwok Keung	–	899	–	–	899
Ho Kin Hung	–	1,289	797	–	2,086
Chen Yuewu	–	600	620	48	1,268
Zhou Ning	–	–	–	–	–
Non-Executive Directors					
Enzo Barazetti	–	498	–	46	544
Ji Lingling	–	–	–	–	–

In addition to the directors' emoluments disclosed above, certain directors of the Company receive emoluments from other companies they are employed to. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the other companies.

During the year ended 31 December 2014, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office (year ended 31 December 2013: nil).

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

(b) Five highest paid individuals

For years ended 31 December 2014 and 2013, the five individuals whose emoluments were the highest in the Group were as follows:

	Group	
	Year ended 31 December 2014	Year ended 31 December 2013
Directors	**3**	2
Non-director individuals	**2**	3
	5	5

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Basic salaries and allowances	**1,036**	2,629
Discretionary bonuses	**1,588**	1,835
Other benefits including pension	**180**	233
	2,804	4,697

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

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Group	
	Number of individuals	
	Year ended 31 December 2014	Year ended 31 December 2013
Emolument bands		
HK$1,000,000 and below	**–**	–
HK$1,000,001~HK$1,500,000	**–**	1
HK$1,500,001~HK$2,000,000	**2**	–
HK$2,000,001 and above	**–**	2
	2	3

26. FINANCE EXPENSES, NET

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Interest expenses	**(1,875)**	(1,348)
Exchange (losses)/gains	**(142)**	50
Finance expenses	**(2,017)**	(1,298)
Interest income	**1,208**	1,256
	(809)	(42)

27. INCOME TAX EXPENSE

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Current income tax expense	**(16,071)**	(18,676)
Deferred income tax expense (Note 12)	**(6,561)**	(4,406)
	(22,632)	(23,082)

27. INCOME TAX EXPENSE (Continued)

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from local income tax.

The subsidiary incorporated in the BVI under the International Business Companies Acts of the BVI is exempted from local income tax.

The taxation rate of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profit for the year (2013: 16.5%).

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar, Austar Hansen and Austar SJZ are high and new technology enterprises certified by relevant local Science and Technology Department, Department of Finance and tax authority of the PRC. These entities have applied preferential tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Shanghai Austar and Austar Hansen have applied the preferential tax rate since 2013, application of which is subject to annual approval by local tax authority. Austar SJZ has applied preferential tax rate since 2014.

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Profit before income tax	**87,825**	76,653
Tax expense calculated at applicable statutory tax rate	**(14,086)**	(16,622)
Impact of change in tax rate on deferred tax	**(744)**	(2,504)
Impact of loss that not recognise deferred income tax	**(286)**	(706)
Expenses not deductible for taxation purposes	**(829)**	(311)
Withholding tax	**(7,643)**	(5,261)
Additional deduction of research and development expenses	**1,597**	1,934
Others	**(641)**	388
Income tax expense	**(22,632)**	(23,082)

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.

	Group	
	Year ended 31 December 2014	Year ended 31 December 2013
Profit attributable to the owners of the Company (RMB'000)	**65,193**	53,571
Weighted average number of ordinary shares in issue (Thousands)	**394,424**	375,000
Basic earnings per share (RMB)	**0.17**	0.14

The weighted average number of shares for the purpose of basic earnings per share has been retrospectively adjusted for the effects of the 1,000,000 Shares issued upon the incorporation of the Company and the capitalisation issue of 374,000,000 Shares, which are deemed to have been in issue throughout the years ended 31 December 2013 and 31 December 2014. The earnings per share as presented above is calculated using the weighted average number of Shares of 394,424,000 Shares for the year ended 31 December 2014 (2013: 375,000,000 Shares).

(b) Diluted

As the Company had no dilutive ordinary shares for each of the years ended 31 December 2014 and 2013, dilutive earnings per share for the years ended 31 December 2014 and 2013 are the same as basic earnings per share.

29. DIVIDENDS

In July 2014, the Company declared dividend in the aggregate amount of approximately US$0.97 million (equivalent to RMB5,989,000) to its shareholders and such dividend was paid in October 2014.

The proposed final dividend for the year is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Profit before income tax	**87,825**	76,653
Adjustments for:		
Depreciation	**7,316**	5,715
Amortisation	**574**	391
Losses on disposals on property, plant and equipment	**24**	105
Gains on available-for-sale financial assets	**(94)**	(443)
(Reversal of)/impairment of receivables	**(3,211)**	4,145
Impairment provision for inventories	**222**	118
Share of profit of joint ventures	**(4,224)**	(4,495)
Finance expenses	**285**	92
Changes in working capital:		
Decrease/(increase) in restricted cash	**365**	(2,485)
Decrease/(increase) in inventories	**5,215**	(25,660)
Increase in trade and other receivables	**(21,568)**	(15,025)
(Decrease)/increase in trade and other payables	**(86,243)**	99,685
Increase/(decrease) in amounts due to customers for contract work	**5,057**	(3,031)
Increase in amounts due from customers for contract work	**(27,858)**	(49,092)
Cash (used in)/generated from operations	**(36,315)**	86,673

31. COMMITMENTS

(a) Capital commitments

The Group did not have any material capital commitments as at 31 December 2014 (2013: Nil).

31. COMMITMENTS (Continued)

(b) Operating lease commitments

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

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Within 1 year	**8,001**	2,033
Between 1 to 5 years	**7,529**	1,433
	15,530	3,466

32. RELATED PARTY TRANSACTIONS

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

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2014 and 2013:

Names of the related parties	Nature of relationship
AIHL	Parent of the Austar BVI before the Reorganisation
PALL-AUSTAR JV	Joint venture of the Group
PALL-Austar Packaging Technology (Beijing) Co., Ltd. ("PALL-AUSTAR WFOE")	Subsidiary of PALL-AUSTAR JV
Steris Austar Pharmaceutical Equipment (Shanghai) Co., Ltd. ("STERIS-AUSTAR WFOE")	Subsidiary of STERIS-AUSTAR JV
Austar Ltd.	Under common control of the Controlling Shareholder
Austar International Engineering Limited ("AIEL")	Under common control of the Controlling Shareholder till 31 December 2013
Austar International Limited ("AIL")	Under common control of the Controlling Shareholder
AustarPharma (Beijing) Ltd. ("AustarPharma Beijing")	Under significant influence of the Controlling Shareholder

32. RELATED PARTY TRANSACTIONS (Continued)

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2014 and 2013: (Continued)

Names of the related parties	Nature of relationship
Senxing Pharmaceutical Consumable (Beijing) Ltd. ("Senxing Beijing")	Under common control of the Controlling Shareholder till 31 December 2013
Beijing Austar Hansen Packaging Technology Ltd. ("Beijing Hansen Packaging")	Under common control of the Controlling Shareholder till 31 December 2013
Brightwood PharmMed Consumable (Beijing) Ltd. ("Brightwood Beijing")	Under common control of the Controlling Shareholder till 31 December 2013
CEFOC-Austar Pharmaceutical Engineering (Shanghai) Co., Ltd. ("CEFOC-Austar")	Under significant influence of the Controlling Shareholder till 28 February 2014
Madam Gu Xun	Close family member of the Controlling Shareholder

(b) Significant transactions with related parties

During the year, the Group has the following significant transactions with related parties:

(i) Purchase of goods and services

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
STERIS-AUSTAR WFOE	**20,481**	38,882
PALL-AUSTAR WFOE	**13,295**	9,222
Brightwood Beijing	**–**	21
AustarPharma Beijing	**–**	300
	33,776	48,425

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(ii) Sales of goods and services

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
STERIS-AUSTAR WFOE	**8,440**	15,001
PALL-AUSTAR WFOE	**990**	1,636
AIL	**–**	185
AIEL	**–**	182
Beijing Hansen Packaging	**–**	282
Brightwood Beijing	**–**	1,945
Senxing Beijing	**–**	274
CEFOC-Austar	**–**	848
	9,430	20,353

(iii) Rental fee expenses

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Madam Gu Xun	**935**	935
Austar Ltd.	**48**	–
	983	935

(iv) Rental fee and miscellaneous income

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
STERIS-AUSTAR WFOE	**478**	533

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

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

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
PALL-AUSTAR JV		
Loan	**–**	7,253
Interest income	**383**	–

This loan to PALL-AUSTAR JV is provided by its shareholder APPS, a subsidiary of the Group. This loan is unsecured and bearing interest rate at LIBOR plus an interest rate variable as prescribed in the loan agreement. For the year ended 31 December 2014, the effective interest rate ranged from 5.55% to 6.07% (2013: 5.47% to 5.80%) per annum. The maturity of this loan is within 1 year.

(vi) Expense payments on behalf

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Brightwood Beijing	**–**	220
AIHL	**–**	41
	–	261

(vii) Funds received from AIHL

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
AIHL	**–**	17,556

Funds provided by AIHL, the parent company of the Group, are unsecured, interest free and with no fixed repayment date. On 30 April 2014, AIHL partially waived the outstanding balance of its funds provided to the Group with an amount of HK$58.6 million (equivalent to RMB46.6 million). The Group repaid all remaining payable balance in 2014.

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) Receivable due from related parties

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
STERIS-AUSTAR WFOE	**9,975**	5,352
PALL-AUSTAR JV (Note 32(b)(v))	**7,659**	7,253
Madam Gu Xun	**702**	–
PALL-AUSTAR WFOE	**407**	–
CEFOC-Austar	**–**	198
	18,743	12,803

(ii) Payable due to related parties

	Group	
	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
STERIS-AUSTAR WFOE	**7,057**	4,922
PALL-AUSTAR WFOE	**3,676**	869
Austar Ltd.	**6**	–
AIHL (Note 32(b)(vii))	**–**	84,395
	10,739	90,186

(d) Key management compensation

	Group	
	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Salaries and bonuses	**8,763**	7,329
Pension and others	**567**	237
	9,330	7,566

33. SUBSEQUENT EVENTS

On 24 March 2015, the Board of Directors proposed a declaration of dividend at HK$0.05 per share which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

FOUR YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December			
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Revenue	**679,750**	705,153	420,753	325,178
Cost of sales	**(451,143)**	(490,187)	(284,304)	(224,657)
Gross profit	**228,607**	214,966	136,449	100,521
Selling and marketing expenses	**(65,134)**	(72,104)	(36,760)	(28,528)
Administrative expenses	**(57,278)**	(47,849)	(35,383)	(24,502)
Research and development expenses	**(23,594)**	(23,897)	(16,076)	(11,795)
Other income	**2,097**	1,130	418	305
Other (losses)/gains, net	**(288)**	(46)	(163)	450
Operating profit	**84,410**	72,200	48,485	36,451
Finance expenses – net	**(809)**	(42)	(1,301)	(684)
Share of profit of joint ventures	**4,224**	4,495	4,102	2,631
Profit before income tax	**87,825**	76,653	51,286	38,398
Income tax expense	**(22,632)**	(23,082)	(15,777)	(11,061)
Profit for the year	**65,193**	53,571	35,509	27,337
Profit attributable to:				
The owners of the Company	**65,193**	53,571	35,476	27,258
Non-controlling interests	**–**	–	33	79
Profit for the year	**65,193**	53,571	35,509	27,337

ASSETS AND LIABILITIES

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Total assets	**869,390**	606,853	437,053	299,893
Total liabilities	**320,334**	478,478	764,464	242,623
Total asset less current liabilities	**564,727**	140,654	79,607	61,015
Total equity attributable to the owners of the Company	**549,055**	128,374	72,587	56,976