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# AUSTAR

## Austar Lifesciences Limited

### 奧星生命科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6118)

#### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<b>627,544</b>	679,750
Gross profit	<b>154,247</b>	228,607
Profit before income tax	<b>7,590</b>	87,825
Profit attributable to the owners of the Company	<b>6,384</b>	65,193
Total assets	<b>960,985</b>	869,390
Net assets	<b>550,984</b>	549,056
Gross profit margin	<b>24.6%</b>	33.6%
Net profit margin	<b>1.0%</b>	9.6%
Current ratio	<b>2.2</b>	2.6
Gearing ratio	<b>6.4%</b>	6.4%
Net debt to equity ratio	<b>Net Cash</b>	Net Cash
Basic earnings per share ( <i>RMB</i> ) ( <i>Note</i> )	<b>0.01</b>	0.17
Diluted earnings per share ( <i>RMB</i> )	<b>0.01</b>	0.17
Proposed final dividend per share	<b>Nil</b>	HK\$0.05

*Note:*

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 2015 and 2014 and the weighted average number of shares during that year.

## ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) of Austar Lifesciences Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2015 (the “**Year**”), together with the comparative figures for the year ended 31 December 2014 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
	<i>Note</i>		
<b>Revenue</b>	3	<b>627,544</b>	679,750
Cost of sales	7	<b>(473,297)</b>	(451,143)
<b>Gross profit</b>		<b>154,247</b>	228,607
Selling and marketing expenses	7	<b>(71,002)</b>	(65,134)
Administrative expenses	7	<b>(56,213)</b>	(57,278)
Research and development expenses	7	<b>(26,908)</b>	(23,594)
Other income	4	<b>2,860</b>	2,097
Other gains/(losses)	6	<b>278</b>	(288)
<b>Operating profit</b>		<b>3,262</b>	84,410
Interest income	5	<b>3,433</b>	1,208
Finance expenses	5	<b>(4,361)</b>	(2,017)
<b>Finance expenses – net</b>		<b>(928)</b>	(809)
Share of profit of joint ventures		<b>5,256</b>	4,224
<b>Profit before income tax</b>		<b>7,590</b>	87,825
Income tax expense	9	<b>(1,207)</b>	(22,632)
<b>Profit for the year</b>		<b>6,383</b>	65,193
<b>Profit attributable to:</b>			
The owners of the Company		<b>6,384</b>	65,193
Non-controlling interests		<b>(1)</b>	–

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2014</b>
<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	16,384	(3,020)
Share of other comprehensive income of joint ventures	(584)	(126)
Reclassification to net income of net gains on available-for-sale financial assets	–	(18)
	<hr/>	<hr/>
<b>Other comprehensive income for the year, net of tax</b>	<b>15,800</b>	<b>(3,164)</b>
	<hr/>	<hr/>
<b>Total comprehensive income for the year</b>	<b>22,183</b>	<b>62,029</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Total comprehensive income attributable to:</b>		
The owners of the Company	22,183	62,029
Non-controlling interests	–	–
	<hr/>	<hr/>
	<b>22,183</b>	<b>62,029</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share for profit attributable to the owners of the Company</b>		
<b>– basic and diluted (RMB)</b>	<b>0.01</b>	<b>0.17</b>
<i>10</i>	<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED BALANCE SHEET

		As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2014 <i>RMB'000</i>
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		43,557	38,545
Land use rights		5,950	6,100
Intangible assets		2,116	1,638
Investments in joint ventures		18,180	17,971
Available-for-sale financial assets		60	60
Deferred income tax assets		7,706	5,668
Other non-current assets		16,295	–
<b>Total non-current assets</b>		<b>93,864</b>	<b>69,982</b>
<b>Current assets</b>			
Inventories		74,920	69,113
Trade and notes receivables	13	193,707	217,492
Prepayments and other receivables		51,025	38,882
Amounts due from customers for contract work	12	132,663	87,128
Pledged bank deposit		21,423	4,169
Cash and cash equivalents		393,383	382,624
<b>Total current assets</b>		<b>867,121</b>	<b>799,408</b>
<b>Total assets</b>		<b>960,985</b>	<b>869,390</b>
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital		4,071	4,071
Reserves	16	375,444	359,645
Retained earnings		171,468	185,339
		<b>550,983</b>	<b>549,055</b>
<b>Non-controlling interests</b>		<b>1</b>	<b>1</b>
<b>Total equity</b>		<b>550,984</b>	<b>549,056</b>

**CONSOLIDATED BALANCE SHEET (continued)**

		As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2014 <i>RMB'000</i>
	<i>Note</i>		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		16,737	15,671
<b>Total non-current liabilities</b>		<b>16,737</b>	<b>15,671</b>
<b>Current liabilities</b>			
Trade and other payables	<i>14</i>	274,003	201,601
Amounts due to customers for contract work	<i>12</i>	81,282	60,077
Short-term borrowings	<i>15</i>	35,000	35,000
Current income tax liabilities		2,979	7,985
<b>Total current liabilities</b>		<b>393,264</b>	<b>304,663</b>
<b>Total liabilities</b>		<b>410,001</b>	<b>320,334</b>
<b>Total equity and liabilities</b>		<b>960,985</b>	<b>869,390</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2015*

### 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" or "China") (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.
- (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 BVI.

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 were transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does 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, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

The preparation of the consolidated financial statements in conformity with 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.

## *Changes in accounting policy and disclosures*

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to IFRSs – 2010 – 2012 Cycle, on IFRS 8, ‘Operating segments’, IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’ and IAS 24, ‘Related party disclosures’.

Amendments from annual improvements to IFRSs – 2011 – 2013 Cycle, on IFRS 3, ‘Business combinations’, IFRS 13, ‘Fair value measurement’ and IAS 40, ‘Investment property’.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 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:



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: amortised 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. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 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.

(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 during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

### **3. SEGMENT INFORMATION**

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

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

The 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 2015 are as follows:

	Liquid and Bioprocess System <i>RMB'000</i>	Clean Room and Automation Control and Monitoring System <i>RMB'000</i>	Powder and Solid System <i>RMB'000</i>	GMP Compliance Service <i>RMB'000</i>	Life Science Consumables <i>RMB'000</i>	Distribution and Agency of Pharmaceutical Equipment <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue and results</b>							
Segment revenue	312,937	163,858	48,218	32,059	78,654	25,658	661,384
Inter-segment revenue	(5,745)	(21,959)	(5,961)	236	(189)	(222)	(33,840)
Revenue	<u>307,192</u>	<u>141,899</u>	<u>42,257</u>	<u>32,295</u>	<u>78,465</u>	<u>25,436</u>	<u>627,544</u>
Cost of sales	<u>(259,703)</u>	<u>(105,534)</u>	<u>(30,507)</u>	<u>(17,192)</u>	<u>(44,431)</u>	<u>(15,930)</u>	<u>(473,297)</u>
Segment results							
Gross profit	<u>47,489</u>	<u>36,365</u>	<u>11,750</u>	<u>15,103</u>	<u>34,034</u>	<u>9,506</u>	<u>154,247</u>
<b>Other segment items</b>							
Amortisation	400	45	12	11	–	6	474
Depreciation	4,122	3,264	847	748	262	447	9,690
Provision/(reversal) of impairment on trade and other receivables	(1,294)	1,135	230	202	(396)	127	4
Impairment provision on inventory	40	127	41	36	202	21	467
Share of profit of joint ventures	<u>3,088</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,168</u>	<u>–</u>	<u>5,256</u>

The segment results for the year ended 31 December 2014 are as follows:

	Liquid and Bioprocess System <i>RMB'000</i>	Clean Room and Automation Control and Monitoring System <i>RMB'000</i>	Powder and Solid System <i>RMB'000</i>	GMP Compliance Service <i>RMB'000</i>	Life Science Consumables <i>RMB'000</i>	Distribution and Agency of Pharmaceutical Equipment <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue and results</b>							
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	<u>342,063</u>	<u>146,163</u>	<u>48,406</u>	<u>50,810</u>	<u>67,154</u>	<u>25,154</u>	<u>679,750</u>
Cost of sales	<u>(252,608)</u>	<u>(97,868)</u>	<u>(27,310)</u>	<u>(21,002)</u>	<u>(38,791)</u>	<u>(13,564)</u>	<u>(451,143)</u>
Segment results							
Gross profit	<u>89,455</u>	<u>48,295</u>	<u>21,096</u>	<u>29,808</u>	<u>28,363</u>	<u>11,590</u>	<u>228,607</u>
<b>Other segment items</b>							
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	<u>2,894</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,330</u>	<u>–</u>	<u>4,224</u>

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

	<b>For the year ended 31 December 2015 RMB'000</b>	For the year ended 31 December 2014 RMB'000
Liquid and Bioprocess System	47,489	89,455
Clean Room and Automation Control and Monitoring System	36,365	48,295
Powder and Solid System	11,750	21,096
GMP Compliance Service	15,103	29,808
Life Science Consumables	34,034	28,363
Distribution and Agency of Pharmaceutical Equipment	9,506	11,590
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<b>Total gross profit for reportable segments</b>	<b>154,247</b>	<b>228,607</b>
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Selling and marketing expenses	(71,002)	(65,134)
Administrative expenses	(56,213)	(57,278)
Research and development expenses	(26,908)	(23,594)
Other income	2,860	2,097
Other gains/(losses)	278	(288)
Finance expenses – net	(928)	(809)
Share of profit from joint ventures	5,256	4,224
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<b>Profit before income tax</b>	<b>7,590</b>	<b>87,825</b>
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The segment assets are as follows:

	As at 31 December 2015		As at 31 December 2014	
	Total assets <i>RMB'000</i>	Investments accounted for using equity method <i>RMB'000</i>	Total assets <i>RMB'000</i>	Investments accounted for using equity method <i>RMB'000</i>
Liquid and Bioprocess System Clean Room and Automation Control and Monitoring System	<b>380,869</b>	<b>13,427</b>	277,951	14,823
Powder and Solid System	<b>30,282</b>	–	33,230	–
GMP Compliance Service	<b>31,354</b>	–	32,865	–
Life Science Consumables	<b>51,528</b>	<b>4,753</b>	38,046	3,148
Distribution and Agency of Pharmaceutical Equipment	<b>8,349</b>	–	9,518	–
<b>Total segment assets</b>	<b>588,383</b>	<b>18,180</b>	482,497	17,971
<b>Unallocated</b>				
Deferred income tax assets	<b>7,706</b>		5,668	
Headquarter assets	<b>364,896</b>		381,225	
<b>Total assets</b>	<b>960,985</b>		869,390	

## Geographical information

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

<b>Revenue</b>	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
Mainland China	581,111	620,008
Other locations	46,433	59,742
	<u>627,544</u>	<u>679,750</u>

	<b>As at 31 December 2015 RMB'000</b>	<b>As at 31 December 2014 RMB'000</b>
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### **Non-current assets other than financial instruments and deferred tax assets**

Mainland China	67,726	46,021
Other locations	18,372	18,233
	<u>86,098</u>	<u>64,254</u>

## 4. OTHER INCOME

	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
Government subsidies	2,341	1,657
Others	519	440
	<u>2,860</u>	<u>2,097</u>

## 5. FINANCE EXPENSES – NET

	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>
Interest expenses from short term bank loan	(2,022)	(1,875)
Exchange losses	(2,339)	(142)
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Finance expenses	(4,361)	(2,017)
Interest income	3,433	1,208
	<hr/>	<hr/>
	<b>(928)</b>	<b>(809)</b>
	<b><u><u>          </u></u></b>	<b><u><u>          </u></u></b>

## 6. OTHER GAINS/(LOSSES)

	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>
Loss on disposal of property, plant and equipment	(83)	(24)
Exchange losses	(1,189)	(314)
Gain on derivatives financial assets at fair value through profit or loss	1,338	–
Return from available-for-sale financial assets	–	94
Others	212	(44)
	<hr/>	<hr/>
	<b>278</b>	<b>(288)</b>
	<b><u><u>          </u></u></b>	<b><u><u>          </u></u></b>



## 7. EXPENSES BY NATURE

	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>
Raw materials	347,659	328,871
Staff costs, including directors' emoluments	138,997	121,647
Depreciation	9,950	7,316
Amortisation	644	574
Sales tax and surcharges	6,099	7,109
Office expenses	6,780	5,607
Travel expenses	36,008	35,287
Freight and port charges	8,753	8,776
Promotion expenses	9,531	7,389
Warranty provision	3,809	4,882
Impairment/(reversal) of receivables	4	(3,211)
Impairment of inventories	467	222
Auditors' remuneration	3,814	2,344
Professional fees	5,883	18,000
Rental expenses	12,004	9,569
On-site subcontract cost	8,281	13,099
Other operating expenses	28,737	29,668
	<u>627,420</u>	<u>597,149</u>

## 8. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>
Salaries and bonuses	107,467	96,402
Pension and social obligations	31,530	24,932
Other welfare	–	313
	<u>138,997</u>	<u>121,647</u>

## 9. INCOME TAX EXPENSE

	<b>For the year ended 31 December 2015 RMB'000</b>	For the year ended 31 December 2014 RMB'000
Current income tax expense	<b>(2,179)</b>	(16,071)
Deferred income tax credit/(expense)	<b>972</b>	(6,561)
	<b><u>(1,207)</u></b>	<b><u>(22,632)</u></b>

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 of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the Year (2014: 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 Pharmaceutical Technology Equipment Co., Ltd ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Co., Ltd ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd ("**Austar SJZ**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Shanghai Austar and Austar Hansen have applied the preferential corporate income tax rate since 2013, subject to annual approval by local tax authority. Austar SJZ has been enjoying preferential corporate income tax rate since 2014. During the year ended 31 December 2015, Austar SJZ had renewed its "High and New Technology Enterprise" qualification for another three years.

## 10. 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.

	<b>For the year ended 31 December 2015</b>	For the year ended 31 December 2014
Profit attributable to the owners of the Company (RMB'000)	<b>6,384</b>	65,193
Weighted average number of ordinary shares in issue (Thousands)	<b>512,582</b>	394,424
	<hr/>	<hr/>
Basic earnings per share (RMB)	<b>0.01</b>	0.17
	<hr/> <hr/>	<hr/> <hr/>

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 year ended 31 December 2014. The earnings per share as presented above is calculated using the weighted average number of Shares of 512,582,000 Shares for the year ended 31 December 2015 (2014: 394,424,000 Shares).

### (b) Diluted

As the Company had no dilutive ordinary shares for each of the year ended 31 December 2015 and 2014, dilutive earnings per share for the years ended 31 December 2015 and 2014 are the same as basic earnings per share.

## 11. DIVIDENDS

At the board meeting held on 29 March 2016, the Board did not propose any final dividend for the year ended 31 December 2015.

A final dividend for the year ended 31 December 2014 of HK\$0.05 (equivalent to approximately RMB0.0396) per Share with a total amount of approximately HK\$25,629,000 (equivalent to approximately RMB20,255,000) was approved at the annual general meeting of the Company held on 15 May 2015. Such dividend was paid in June 2015 (2014: RMB5,989,000).

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

	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2014 <i>RMB'000</i>
Contract cost incurred plus recognised profit less foreseeable losses	525,554	423,924
Less: Progress billings	<u>(474,173)</u>	<u>(396,873)</u>
Contract work in progress	<u>51,381</u>	<u>27,051</u>
Representing:		
Amounts due from customers for contract work	132,663	87,128
Amounts due to customers for contract work	<u>(81,282)</u>	<u>(60,077)</u>
	<u>51,381</u>	<u>27,051</u>
	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2014 <i>RMB'000</i>
Construction contract revenue	<u>413,377</u>	<u>422,342</u>

## 13. TRADE AND NOTES RECEIVABLES

	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2014 <i>RMB'000</i>
Trade receivables ( <i>Note (b)</i> )	180,069	203,921
Notes receivable ( <i>Note (a)</i> )	<u>23,427</u>	<u>23,798</u>
	203,496	227,719
Less: provision for impairment	<u>(9,789)</u>	<u>(10,227)</u>
	<u>193,707</u>	<u>217,492</u>

Notes:

- (a) Notes receivable are all bank acceptance with maturity dates within six months (2014: six months to one year).
- (b) Ageing analysis of gross trade receivables is as follows:

	<b>As at 31 December 2015 RMB'000</b>	<b>As at 31 December 2014 RMB'000</b>
Within 3 months	<b>96,264</b>	62,795
3 to 6 months	<b>24,481</b>	61,023
6 months to 1 year	<b>26,067</b>	43,981
1 to 2 years	<b>25,062</b>	25,705
2 to 3 years	<b>4,162</b>	7,824
Over 3 years	<b>4,033</b>	2,593
	<b>180,069</b>	203,921

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

#### 14. TRADE AND OTHER PAYABLES

	<b>As at 31 December 2015 RMB'000</b>	<b>As at 31 December 2014 RMB'000</b>
Trade payables	<b>158,193</b>	116,304
Notes payables	<b>29,180</b>	926
Advances from customers	<b>35,260</b>	25,917
Payroll and welfare payable	<b>14,417</b>	28,108
Taxes other than income taxes payable	<b>8,263</b>	3,616
Warranty provision	<b>5,651</b>	6,767
Others	<b>23,039</b>	19,963
	<b>274,003</b>	201,601

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

	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000
Within 6 months	135,966	109,832
6 months to 1 year	15,613	3,366
1 to 2 years	4,945	2,495
2 to 3 years	1,150	73
Over 3 years	519	538
	<u>158,193</u>	<u>116,304</u>

- (b) As at 31 December 2015 and 2014, the carrying amounts of trade and other payables approximated their fair values due to short maturity.

## 15. SHORT-TERM BORROWINGS

	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000
Bank borrowings		
– secured ( <i>Note (a)</i> )	20,000	35,000
– guaranteed ( <i>Note (b)</i> )	15,000	–
	<u>35,000</u>	<u>35,000</u>

*Notes:*

- (a) As at 31 December 2015, secured short-term bank borrowing is denominated in RMB, secured by the Group's buildings, land use rights and guaranteed by Austar SJZ, a subsidiary of the Company, bearing interest at 5.66% (2014: 6.30%) per annum and is repayable within one year.
- (b) As at 31 December 2015, guaranteed short-term bank borrowing is guaranteed by Austar SJZ, a subsidiary of the Company. These loans are denominated in RMB, bear interest at 5.62% to 6.16% per annum (2014: NA) and are repayable within in one year from respective drawdown dates.

## 16. RESERVES

### (a) Capital surplus

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). The amount is therefore recognised as transaction with owners in equity.

### (b) Share premium

On 7 November 2014, the Company completed the listing of its shares on the Main Board of the Stock Exchange through issuance of 137,582,000 shares (including over-allotment) at HK\$3.12 per share. The net proceeds was recognised as increase in capital of RMB4,063,000 and share premium of RMB314,009,000, respectively.

## 17. SUBSEQUENT EVENT

On 29 January 2016, the Group entered into an agreement with Mr. Jurgen Karl Rebhan (“**Mr. Rebhan**”), an independent third party, whereby the Group has agreed to purchase 33.33% interest in ROTA Verpackungstechnik GmbH & Co. KG (“**ROTA KG**”) and 33.33% interest in ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (“**ROTA GmbH**”, together with ROTA KG, collectively “**ROTA**”) from Mr. Rebhan. ROTA KG, a partnership established under the laws of Germany, is primarily engaged in the development, manufacture and distribution of equipment and machinery for packaging of pharmaceutical products and devices and related services. As at the date of approving these financial statements, the transaction has yet to be completed.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market review

Year 2015 marked the last year of the “Twelfth Five-Year Plan” by the Fifth Plenary Session of the Seventeenth Central Committee of the PRC government and the PRC government has finished a series of economic reconstruction plans announced by it before 2010, in particular, the PRC has finished the industry improvement of equipment manufacture and completed basic medical system as planned which have brought good opportunities to the Group. GDP of the PRC has grown from approximately RMB40.89 trillion in 2010 to approximately RMB67.67 trillion in 2015. China’s macro economy was still undergoing an important stage of structural adjustment and transformation in 2015, and it will continue with this new path of development in the next few years.

To improve the economic environment and further deepen the reforms, the PRC government adopted a series of growth stabilising and industries upgrading measures. The central bank cut both interest rates and the reserve requirement ratio for five times during the Year, and GDP growth slowed down to approximately 6.9%, and the total profits of industrial enterprises shrank by approximately 2.3% year-on-year, indicating increasing downward pressure for economic growth.

Despite the rather painful stage of current economic growth, new hopes of PRC’s pharmaceutical industry was fostered in such a process initiated by the PRC authorities with a series of new policies formed to enhance industry upgrade and economic realignment. As a result of this round of adjustment many out-dated production capacities would be eliminated and the pharmaceutical industry is expected to be growing in a healthier trend.

Year 2015 was the deadline of new good manufacturing practice (GMP) implementation, with more than 140 pharmaceutical companies’ GMP certifications having been withdrawn by the PRC regulatory authorities. In the backdrop of slowdown in economic growth and stricter policies in the pharmaceutical industry, growth in the pharmaceutical industry also showed a slowing trend. The revenue growth of the pharmaceutical manufacturing industry reduced year-on-year to approximately 9.1% in 2015 but the performance of the industry was still better as compared to the overall downtrend of the macro economy of the PRC.

In June 2015, the “People’s Republic of China Pharmacopoeia” (2015 edition) (“**PRC Pharmacopoeia**”) was published, addressing upgrading of the pharmacopoeia which demands higher technical requirements for pharmaceutical companies. The new drug authority policies under the PRC Pharmacopoeia mainly focus on strengthening drug safety and drug efficacies,



requiring full utilisation of international advanced quality control techniques and knowledge, enhancing the overall level of Pharmacopoeia standards in a medium long term, and encouraging PRC's pharmaceutical enterprises to improve the quality and technological progress.

In August 2015, the State Council issued the “Opinions Concerning the Reform of the Review and Approval System for Drugs and Medical Devices” 《國務院關於改革藥品醫療器械審評審批制度的意見》 asking for new drug approval listing standards, promoting quality conformance evaluation of generic drugs, and promoting the quality of generic drugs to reach that of the brand innovative drugs. Generic quality conformance assessment requires pharmaceutical companies acquiring sufficient clinical data to prove the consistency of its safety and efficacy. Some products that cannot meet the standard may be eliminated from the drug list in the PRC. This policy aims to promote generic drugs reaching the international advanced level, which requires the whole pharmaceutical industry to improve itself from drug research to manufacturing.

The China Drug and Food Administration (the “CFDA”) identified certain drug clinical trials as unreliable and false, with existence of fraud issues, which seriously affect the normal drug review and approval tasks of the CFDA. The CFDA now requires pharmaceutical companies to conduct self-check on drug clinical trial data, mainly on data integrity issues to systems quality. Following the last day of 2015, 154 pharmaceutical companies have withdrawn 224 drug applications for clinical trial registration. After 20 January 2016, CFDA issued a public notice stating that another 128 pharmaceutical companies have withdrawn 199 drug applications for registration. Such withdrawals reflect the determination of the CFDA to improve drug quality on one hand and to encourage domestic and foreign pharmaceutical companies to develop innovative drugs on the other hand.

Accordingly, those pharmaceutical companies with quality concerns, innovative drug pipelines and discipline in compliance with the standards of the CFDA will stand out in the market. As a result, pharmaceutical manufacturers in China have given higher requirements to its suppliers. Only solution providers with international quality standard could provide qualified products to pharmaceutical companies under the new policies and only a few domestic players are capable of providing comprehensive and customised turnkey solutions which meet the standards of the Drug and Food Administration (“FDA”) of the United States, the European Medicines Agency (“EMA”) and the World Health Organization (“WHO”). Serving such high-end market requires strong research and development (R&D) capability, deep understanding of regulations, project management capabilities, cutting edge manufacturing capabilities, advanced technology and heavy investment, which eliminate more old-fashioned players without significant technology investment, limit the entering of new low-tier players and bring more opportunities for the Group to take over other players' shares in the market.

## **Business review**

The Group is a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and the emerging countries. The Group dedicates to provide equipment-engineering-service-consumables turnkey solutions and promote industry advancement and create value for the PRC pharmaceutical industry. Under the changing circumstances in pharmaceutical industry brought by new policies of the PRC authorities, the Group continues to develop more cutting edge technologies and solutions with its innovation and aspires to expand its market and supply its products to more manufacturers in the cosmetic and medical device industries by leveraging its technological competence to reduce risk caused by market transformation and consolidate sales revenue and profit.

The Group offers high-end turnkey solutions for its customers to set up production facilities and also build up a clean environment which are both critical for pharmaceutical production. During the Year, the Group has increased its R&D investment and enhanced cooperation with world leading pharmaceutical equipment or engineering solutions and technology suppliers, institutes and universities to shift the science to industrial products and expand its product lines. The Group is still in the industry technology-leading position and the only supplier in the market who could provide the most comprehensive turnkey solutions to pharmaceutical manufacturers.

The Group's main 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 could assist its customers in key phases of a pharmaceutical product lifecycle, from research, development, pilot plant and commercial production to product launch. The Group, together with its joint ventures, also engages in the manufacture, sale and distribution of various types of high-end pharmaceutical equipment and life science consumables.

For the Year, the Group's revenue amounted to approximately RMB627.5 million, representing a decrease of approximately 7.7% from approximately RMB679.8 million for the year ended 31 December 2014.

## 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:

<i>Order-in-take by business segment</i>	For the year ended 31 December				Change %
	2015		2014		
	RMB'000	%	RMB'000	%	
Liquid and Bioprocess System	407,317	49.8%	429,335	52.8%	(5.1%)
Clean Room and Automation					
Control and Monitoring System	162,953	19.9%	189,992	23.4%	(14.2%)
Powder and Solid System	77,527	9.5%	38,750	4.8%	100.1%
GMP Compliance Service	30,726	3.8%	42,394	5.2%	(27.5%)
Life Science Consumables	98,718	12.0%	80,659	9.9%	22.4%
Distribution and Agency of Pharmaceutical Equipment	41,277	5.0%	31,643	3.9%	30.4%
Total	<u>818,518</u>	<u>100.0%</u>	<u>812,773</u>	<u>100.0%</u>	<u>0.7%</u>

During the Year, the total order-in-take amounted to approximately RMB818.5 million, representing a slight increase of approximately 0.7% from approximately RMB812.8 million for the year ended 31 December 2014, which was mainly attributable to the increase in order-in-take amount of the business segments of Powder and Solid System and Life Science Consumables but partially offset by the decrease in order-in-take amount of the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System and GMP Compliance Service. In spite of the market downturn in the Year, the Group was able to maintain a good position in the overall order-in-take volume and achieved a slight increase mainly due to the Group's strategic positioning as an integrated engineering solutions provider at the high-end market with a diverse scope of products and services.

### *Liquid and Bioprocess System*

Since the biologics research and drug clinical registration remain very strong in the Year, the Group has successfully gained a number of biopharmaceutical projects including monoclonal antibody projects, insulin projects and vaccine projects of reputable domestic and multi-national pharmaceutical manufacturers, thereby creating a stronger shield from the decreasing conventional pharmaceutical chemicals projects. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB407.3 million for the year ended

31 December 2015, representing a decrease of approximately RMB22.0 million or 5.1% from approximately RMB429.3 million for the year ended 31 December 2014. In the coming few years, biologics drugs, especially monoclonal antibody drugs, are still the driving force for the growth and the Group will continue to place 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 value-added automation control and monitoring system projects. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB27.0 million or 14.2% to approximately RMB163.0 million for the year ended 31 December 2015 from approximately RMB190.0 million for the year ended 31 December 2014.

#### ***Powder and Solid System***

During the Year, in response to the changing demand and requirements in the market, the Group has introduced certain latest and critical equipment in order to capture the fast growing formulation technology market and the containment and isolation technology market which led to an increase in the order-in-take amount of the business segment of Powder and Solid System by approximately RMB38.7 million or 100.1% from approximately RMB38.8 million for the year ended 31 December 2014 to approximately RMB77.5 million for the year ended 31 December 2015.

#### ***GMP Compliance Service***

During the Year, in light of the market opportunities in the emerging countries, the Group diversified its focus to explore and develop the overseas markets by undertaking turnkey projects, providing project design and management services and supporting our other business units, with an aim to pursue geographical expansion as well as higher margin projects. For such purpose, the Group strategically re-allocated resources from our GMP Compliance Service department to the newly established business unit. As a result, the order-in-take amount of the business segment of GMP Compliance Service decreased by approximately RMB11.7 million or 27.5% from approximately RMB42.4 million for the year ended 31 December 2014 to approximately RMB30.7 million for the year ended 31 December 2015.

## *Life Science Consumables*

Subsequent to the introduction of the new products types including the latest pharmaceutical instrument for quality assurance and control use and animal laboratory research products in 2014, the market demand for the life sciences consumables increased and led to an increase in order-in-take in this business segment. The order-in-take amount of the business segment of Life Science Consumables increased by approximately RMB18.0 million or 22.4% from approximately RMB80.7 million for the year ended 31 December 2014 to approximately RMB98.7 million for the year ended 31 December 2015. The Group will continue to launch more diversified life science consumables with latest technology to its customers.

## *Distribution and Agency of Pharmaceutical Equipment*

During the Year, the Group, together with its joint ventures, engaged in the sale and distribution of various types of high-end pharmaceutical equipment which led to the increase in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB9.7 million or 30.4% from approximately RMB31.6 million for the year ended 31 December 2014 to approximately RMB41.3 million for the year ended 31 December 2015.

## **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 2015.

<i>Backlogs by business segment</i>	<i>Number of Contracts</i>	<b>As at 31 December 2015</b>		
		<i>%</i>	<i>RMB'000</i>	<i>%</i>
Liquid and Bioprocess System	<b>151</b>	<b>21.0%</b>	<b>218,024</b>	<b>47.2%</b>
Clean Room and Automation				
Control and Monitoring System	<b>258</b>	<b>35.8%</b>	<b>125,127</b>	<b>27.1%</b>
Powder and Solid System	<b>62</b>	<b>8.6%</b>	<b>43,420</b>	<b>9.3%</b>
GMP Compliance Service	<b>73</b>	<b>10.1%</b>	<b>31,895</b>	<b>6.9%</b>
Distribution and Agency of Pharmaceutical Equipment	<b>176</b>	<b>24.5%</b>	<b>43,886</b>	<b>9.5%</b>
Total	<b>720</b>	<b>100.0%</b>	<b>462,352</b>	<b>100.0%</b>

## **Production**

In the Year, the Group has undergone further streamlining of its manufacturing team by restructuring its organisation, consolidating functions from different business units, which help improve cost-effectiveness of production and delivery, with an expectation that positive effects can benefit our cost outlook in the coming quarters of 2016. More component and metalwork machining equipment were installed at the Group's production facility in Shijiazhuang to improve production capacity, reducing outsourcing delivery time and cost pressure for certain of our products.

In order to improve the supply of bioprocess systems, during the Year, additional production capacity of pressure vessels were installed at the Group's production facilities in Shanghai and Shijiazhuang to cater for the in-house supply of vessels required for our growing business of bioprocess systems. We believe that all key vessels required for our bioprocess systems can be manufactured in-house in 2017. Our vessel manufacturing platform can support the production of newly introduced oral-solid-dosage granulation system, which has already been launched at the 50th (2015 Autumn) China International Pharmaceutical Machinery Exposition ("CIPM"), attracting much attention from customers with appreciation of all the new innovative functions.

New technically-upgraded clean room enclosure system production equipment was acquired during the Year. It has been installed and test run in the first quarter of 2016 and it is expected to be manufactured starting from April 2016. With this new equipment being installed in our Shijiazhuang production facility, it is foreseen that the Group can further improve the quality of its clean room system, maintain good reputation in existing market and the newly added production capacity can support further expansion of our domestic market.

In the Year, our joint venture, PALL-AUSTAR Lifesciences Limited, was equipped with the new 3-D bioprocess vessel manufacturing equipment, test runs of which have been completed. Samples were delivered to our customers and small quantity orders have been successfully secured. It is expected this new product supply would leverage our Single-Use Technology offers in the coming years apart from our own newly generated profit margin.

## **Research and development**

In the Year, the freeze-drying system including isolator, vial loading and unloading system and freeze-dryer has been launched following 2 years of efforts of our R&D team with partnerships with a team of consultants from Germany, the United States, the United Kingdom and France. Since then the Company, together with our business partner ROTA, is able to offer a complete liquid filling and freeze-drying integrated solutions to our clients in 2016. With all the process tests and validated with full documents, the freeze-drying system is now available for inspection and order by our customers at our facility in Nanjing.

Thanks to the R&D effort by our Single-Use Technology team, in the Year, the Company successfully developed and secured orders for our through-wall systems and process automation control platform system, which are parts of our biological process-related single-use vessels, respectively. Biological process-related single-use vessels involve fast growing business of products and services, supporting our customers in the field of the booming biosimilar and monoclonal antibody drugs.

In the Year, our Liquid Process System team continued to undergo in-depth research on our newly developed bioreactors and chromatography unit in partnership with foreign technical consultants. It is expected that both of the unit skids would be launched and exhibited in the coming CIPM Spring and Autumn 2016 respectively. These new products would certainly facilitate our entry into the veterinary animal vaccine industry by integrating with our existing system for a complete technical solution.

Our Powder and Solid System team obtained the grant of one invention patent from the PRC patent office for our newly created contained animal cage for serious virus containment meanwhile satisfactory sales results have been reached with the animal cages offered by our partner Allentown Inc within a short period of time of entry into the market. The great opportunities ahead are the new capital expenditure (CAPEX) investment on renovation and new facilities of laboratory animal houses, initiated by strict enforcement of the rules and policies of good laboratory practice (GLP) and good clinical practice (GCP) by the PRC authorities. In the Year, a research laboratory was established for material flow study and solid and particle studies. A number of new equipment related to formulation technology and material transfer have been in the final stage of research phase and are expected to be launched in 2016. As at 31 December 2015, the Group had obtained 10 registered patents and 18 patent applications were in progress.

## **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. Most of the Group's sales revenue is generated from pharmaceutical manufacturers and medicine research institutes facilities. In the Year, apart from penetrating deeper into the existing markets, the Group has also successfully penetrated into new market segment by leveraging existing technologies and knowledge including disease control facilities, cosmetic manufacturers, medical device manufacturers and nuclear-industry with containment concerns. The Group's services and products are mainly sold directly to the customers in the PRC to consolidate the sales channel. In the overseas market the Group sells its products in a direct and distributing mixture method. The Group currently has sales offices and representative offices in major cities in the PRC, including but not limited to Chengdu and Guangzhou. In 2015 the Group has also initiated a study on the online consumable sales model and has started to look for suitable logistics providers to develop new sales model for our consumables.

During the Year, the Group has been regularly participating in a number of international conferences including the CIPM and the International Society For Pharmaceutical Engineering (ISPE) annual meetings, and over 25 seminars and conferences which were held mainly in the PRC. The Group has also attended overseas international exhibitions and conferences such asACHEMA, CPhI and P-MEC, where the Group showcased its products with a view to solicit business opportunities and maintain an international corporate image. During the Year, the Group has also successfully penetrated into new markets in Dominica and Vietnam. The Group has also organised various marketing activities to enhance its professional image in technology and brand awareness among high-end key accounts. With the collaboration of food and drug administrations, the Group also held technology exchange seminars, training sessions and forums, during which domestic and overseas experts were invited to brief the provincial inspectors in the PRC and the Group's customers on the latest technological and regulatory requirements in the pharmaceutical industry. The Group has also held comprehensive seminars for our key clients to present its turnkey solutions so that our key clients could have a better and clearer understanding of the Group's product lines and advantages.

## **Prospects**

The fixed asset investment of the PRC's pharmaceutical industry will continue to soften to certain extent as a result of the PRC government's expediting of the economic adjustment with micro-control measures. However, following the deeper understanding on the "Technical Guideline for Development and Evaluation of Biosimilars (interim)" by PRC pharmaceutical manufacturers, stricter enforcement of the revised Environmental Protection Law of the PRC with effect from 1 January 2015, application of automation and information technology in the industry and modernisation of the industry, as a leading pharmaceutical integrated engineering solution provider, the Group is confident on the prospects of the development of pharmaceutical integrated engineering solutions industry in the PRC and the emerging countries.



In response to the complicated and changing business environment in the PRC and emerging countries, the Group will continue to put efforts in streamlining operating efficiency by implementing strict cost control measures and optimising our product portfolio to improve overall profit margins. Meanwhile, the Group will continue to pursue sustainable business by implementing the following key development strategies:

***Increase the market share in the PRC and the emerging countries***

*PRC*

In spite of the PRC economic slowdown, the Group believes that the pharmaceutical industry still has a large growth capacity in view of the nature of healthcare as a necessity and the policies laid down by the PRC authorities for the betterment and regulation of the healthcare industry. Even though the number of hot and active projects in the market is still large enough to support our order-in-take growth in the Year, the Group realises the challenges of competition from western and local competitors who are trying to enter into our existing market due to shrinkage in their own markets. Facing these challenges, the Group has been organising more sophisticated sales and marketing tools for its sales team, staff e-learning system with more educational programs, supporting sales team and management with a more effective customer-relationship management software, and reorganising the sales team to create more collaboration and synergy among sales staff.

The Group's sales force is still under growth with more sales staff recruited to cover new areas and allow placement of more experienced staff into more strategic areas such as South China and the Middle East.

*Emerging countries*

During 2014, some emerging countries such as Russia, Uzbekistan, Turkey and the Middle East with which the Group has significant overseas business are under political challenges and currency fluctuations. As a result, the order-in-take from these regions had been seriously affected in the Year. Nevertheless, the Group still enjoyed good orders in areas such as Indonesia and Malaysia. The Group has been putting efforts in exploring new territories of emerging countries, for example, in Africa and South America. The Group believes that in spite of the present political turmoil in certain regions, due to the policies of localisation of pharmaceutical manufacture in key emerging countries, new CAPEX and facility constructions are still on demand on medium and long term basis.

## ***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 the PRC, the Group has successfully developed its bioreactor and freeze-dryer in the Year under the support from EU and US partners and consultants. This newly developed equipment has more competitive advanced technologies which could fit the requirements of PRC/EU/US GMP. Currently, new products such as chromatography system, filling lines, culture medium are under development. The Group is able to offer leading and integrated biopharmaceutical process solutions to biopharmaceutical enterprises. In addition, through a combination of the Group's own automation control, verification and disposable sterile technologies, in 2016, the Group will be able to provide a hybrid (with stainless steel and disposable) overall program to biopharmaceutical companies. Based on the business of equipment and automation systems, the Group is putting efforts on the development of biopharma consumables so as to provide more comprehensive product lines to its customers.

Apart from biopharmaceutical industry, the Group has also invested in sales and marketing in market segments such as environment control, traditional Chinese medicine and cosmetic industries to leverage its liquid process capabilities in new industries to achieve fast market expansion while taking relatively lower market risks.

### *Clean Room and Automation and Monitoring System*

In the Year, the Group restructured its project execution organisation and set up a Project Execution Centre, to eliminate boundaries of execution among different business units within the Group. Human resources for project execution can also be shared. Project execution can be harmonised at customers' sites which enables instant response to customer demand and facilitates more efficient implementation of turnkey projects and to improve customer satisfaction. With such initiative, the Group could implement a turnkey project with more flexible structure and leverage different business units to introduce technologies in the traditional cleanroom business to develop unique solutions in the market.

In addition, the Group has established its own facility design team during the Year and will enhance the cooperation with foreign high-end engineering design companies to obtain design contracts so as to gradually instill the Group's turnkey concept to customers with an aim to increase the chance of winning high-end turnkey projects.

The Group has been spending efforts in enhancing our technical competence in pharmaceutical Manufacturing Execution System, which is an important information system to be linked to enterprise resource planning (ERP) and automation systems. As the PRC pharmaceutical industry is steering its visions onto the industrialisation 4.0, the Group's gaining skills and knowledge would be very helpful to our business development in this specific sector.

#### *Powder and Solid System*

To meet customers' standards of occupational safety and containment manufacturing in the pharmaceutical and nuclear industries, the Company has integrated more world leading technologies into its technical solutions. During the Year, the Group has developed a series of powder or liquid transfer products which could transfer objects between areas of different grades in the clean room so that the Group could provide more comprehensive and flexible solutions to its customers. To complete its oral solid dosage (OSD) product line, the Group has successfully developed fluid bed and wet granulation equipment to strengthen its capabilities to provide total-solution concept in the OSD field.

The more the pharmaceutical industry stresses on environmental, health and safety (EHS) issues, the more opportunities ahead for the Group are expected from this business segment.

#### *GMP Compliance Service*

Our GMP Compliance Service team comprised of local and foreign regulation experts who could rapidly complete various researches on new regulations on a worldwide basis to develop different solutions for pharmaceutical companies to comply with new regulation requirements put forward by regulatory authorities in a short time. Based on the researches on the regulations announced in 2015, including the State Council's "Opinions Concerning the Reform of the Review and Approval System for Drugs and Medical Devices" and CFDA's requirement of pharmaceutical companies to conduct self-checking on drug clinical trial data, the Group has been further developing additional elements into the following services to expand its consultancy service scope:

1. cold chain consultancy services addressing the improved China's good supply practice (GSP);
2. operational excellence consultancy services through offering gap analysis and improvement initiative advice and management tools;
3. quality management system consultancy services pursuant to regulators' newly encouraged pharmaceutical quality systems;

4. registration support services, assisting pharmaceutical manufacturers or research organisations to register their pharmaceutical products with the FDA, the EMA and the WHO;
5. consistency evaluation service which provides customised improvement scheme for generic drug manufacturers; and
6. data integrity consultancy service, assisting the pharmaceutical manufacturers in their data process and management in R&D and manufacture phases.

***Strengthen our research and development and product design and development capabilities***

The Group has established cooperation with local and international universities and institutes such as Chinese Academy of Science, East China University of Science and Technology, Bradford University, etc. Through the cooperation with the research facilities of these institutions, the Group could not only transfer most cutting edge sciences into products, but also develop process and new products to support technical solutions of pharmaceutical companies.

Meanwhile the Group has increased its capital investment in strengthening its own research capabilities. During the Year the Group established powder and solid process laboratory in its Shijiazhuang facility, and in 2016 the Group is in the plan of establishing more new laboratories to develop new process and technologies based on the equipment technologies transferred from its partners with an aim to help customers improve their process, formulations and equipment.

***Expand by opportunistic and strategic acquisition of business and/or companies***

The Group's merger and acquisition target is to synergise its present business. As set out in note 17 of the Notes to the Financial Statements for the year ended 31 December 2015, on 29 January 2016, the Group entered into an agreement with Mr. Rebhan for the proposed acquisition of 33.33% interest in ROTA from Mr. Rebhan (the "**ROTA Acquisition**"). The ROTA Acquisition has not yet been completed as at the date of this announcement.

ROTA is a German company having over 20 years' manufacturing and process experiences, presence in fill-finish market with strength in ampoule and vial filling technologies compared to manufacturers in the PRC and Asia and has gained customer satisfaction in emerging markets. The Group has recently developed freeze-dryer, vial loading and unloading technologies and sterile isolators which can leverage technically with ROTA to offer the Group's customers a complete integrated filling and freeze-drying technical solution from one single source. It was expected that

following the completion of the ROTA Acquisition, the Group will share knowledge with ROTA on German and European level of equipment design and equipment manufacturing techniques. With the support of ROTA, the Group is expected to be able to create a new brand, ROTA-AUSTAR, for its PRC market to compete against local competitors.

Through negotiation between potential targets in the Year, the Group identified some other potential targets and has been undertaking in-depth communications and putting forward proposal with a number of companies. The Group's targets to acquire world-class specific technology leading companies with a view to bring additional brand value and specific high-end technology value to the Group and to complete its product lines as well as to provide more comprehensive solutions to its customers throughout the PRC and the emerging countries.

## **RESULTS OF OPERATIONS**

### **Revenue**

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

For the Year, the Group's total revenue amounted to approximately RMB627.5 million, representing a decrease of approximately 7.7% over 2014, primarily due to the decrease in revenue from the business segments of Liquid and Bioprocess System, Powder and Solid System and GMP Compliance Service which had partially offset the increase in revenue from the business segments of Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the years ended 31 December 2015 and 2014, the breakdown of the Group's revenue by business segment:

<i>Revenue by business segment</i>	For the year ended 31 December				Change %
	2015		2014		
	RMB'000	%	RMB'000	%	
Liquid and Bioprocess System	307,192	49.0%	342,063	50.3%	(10.2%)
Clean Room and Automation Control and Monitoring System	141,899	22.6%	146,163	21.5%	(2.9%)
Powder and Solid System	42,257	6.7%	48,406	7.1%	(12.7%)
GMP Compliance Service	32,295	5.1%	50,810	7.5%	(36.4%)
Life Science Consumables	78,465	12.5%	67,154	9.9%	16.8%
Distribution and Agency of Pharmaceutical Equipment	25,436	4.1%	25,154	3.7%	1.1%
Total	<u>627,544</u>	<u>100.0%</u>	<u>679,750</u>	<u>100.0%</u>	<u>(7.7%)</u>

#### ***Liquid and Bioprocess System***

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB34.9 million or 10.2% from approximately RMB342.1 million for the year ended 31 December 2014 to approximately RMB307.2 million for the year ended 31 December 2015. The decrease was mainly due to prolonged execution time for certain projects undertaken by the Group resulting in a decrease in revenue as compared with the corresponding period in 2014.

#### ***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 RMB4.3 million or 2.9% from approximately RMB146.2 million for the year ended 31 December 2014 to approximately RMB141.9 million for the year ended 31 December 2015. The decrease was mainly due to the decrease in acceptance of clean room enclosure projects with lower profit margin in the Year.

### ***Powder and Solid System***

The Group's revenue from the business segment of Powder and Solid System decreased by approximately RMB6.1 million or 12.7% from approximately RMB48.4 million for the year ended 31 December 2014 to approximately RMB42.3 million for the year ended 31 December 2015. The decrease in revenue was primarily resulted from (i) decrease in the amount of backlog in the business segment of Powder and Solid System at the year end of 2014; and (ii) certain amount of order-in-take in the business segment of Powder and Solid System in 2015 has not yet recognised as revenue for the Year.

### ***GMP Compliance Service***

The Group's revenue from the business segment of GMP Compliance Service decreased by approximately RMB18.5 million or 36.4% from approximately RMB50.8 million for the year ended 31 December 2014 to approximately RMB32.3 million for the year ended 31 December 2015, which was primarily attributable to (i) the Group's decision to minimise order-in-takes and increase training to its execution team in order to enhance execution level; and (ii) assignment of certain team members of GMP Compliance Service to the Group's newly established business unit in pursuit of overseas turnkey projects.

### ***Life Science Consumables***

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB11.3 million or 16.8% from approximately RMB67.2 million for the year ended 31 December 2014 to approximately RMB78.5 million for the year ended 31 December 2015, which was primarily attributable to the increase in the Group's distribution of life science consumables manufactured by its joint venture. The increase was also driven by the launch of new pharmaceutical instruments which have a wider scope of use in research institutes.

### ***Distribution and Agency of Pharmaceutical Equipment***

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment stably increased by approximately RMB0.2 million or 1.1% from approximately RMB25.2 million for the year ended 31 December 2014 to approximately RMB25.4 million for the year ended 31 December 2015, which was primarily attributable to the Group's increased focus on the sale and distribution of various types of high-end pharmaceutical equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the year ended 31 December 2015 and 2014:

Revenue by business segment	For the year ended 31 December				Change %
	2015		2014		
	RMB'000	%	RMB'000	%	
Mainland China	581,111	92.6%	620,008	91.2%	(6.3%)
Other locations	46,433	7.4%	59,742	8.8%	(22.3%)
Total	<u>627,544</u>	<u>100.0%</u>	<u>679,750</u>	<u>100.0%</u>	<u>(7.7%)</u>

The Group derived its revenue mainly from the business operations in the Mainland China, which accounted for approximately 92.6% of the total revenue for the year ended 31 December 2015 (2014: approximately 91.2%).

### Cost of sales

The Group's cost of sales increased by approximately RMB22.2 million or 4.9% from approximately RMB451.1 million for the year ended 31 December 2014 to approximately RMB473.3 million for the year ended 31 December 2015. Such increase was mainly due to increase in costs of raw materials and staff costs.

### Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB74.4 million or 32.5% from approximately RMB228.6 million for the year ended 31 December 2014 to approximately RMB154.2 million for the year ended 31 December 2015. The gross profit margin decreased from approximately 33.6% for the year ended 31 December 2014 to approximately 24.6% for the year ended 31 December 2015, which was mainly resulted from the decrease in gross profit margin from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System and GMP Compliance Service.



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

<i>Gross profit and gross profit margin by business segment</i>	For the year ended 31 December					
	2015			2014		
	<i>RMB'000</i>		<b>Gross profit margin</b>	<i>RMB'000</i>		<b>Gross profit margin</b>
		%	%		%	%
Liquid and Bioprocess System	47,489	30.8%	15.5%	89,455	39.1%	26.2%
Clean Room and Automation Control and Monitoring System	36,365	23.6%	25.6%	48,295	21.1%	33.0%
Powder and Solid System	11,750	7.6%	27.8%	21,096	9.2%	43.6%
GMP Compliance Service	15,103	9.8%	46.8%	29,808	13.1%	58.7%
Life Science Consumables	34,034	22.1%	43.4%	28,363	12.4%	42.2%
Distribution and Agency of Pharmaceutical Equipment	9,506	6.1%	37.4%	11,590	5.1%	46.1%
Total	<b>154,247</b>	<b>100.0%</b>	<b>24.6%</b>	<b>228,607</b>	<b>100.0%</b>	<b>33.6%</b>

### ***Liquid and Bioprocess System***

The Group's gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB42.0 million or 46.9% from approximately RMB89.5 million for the year ended 31 December 2014 to approximately RMB47.5 million for the year ended 31 December 2015. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 26.2% for year ended 31 December 2014 to approximately 15.5% for the year ended 31 December 2015, which was mainly resulted from (i) prolonged execution time for certain projects undertaken by the Group due to subsequent modification of users requirements for liquid and bioprocess projects undertaken by the Group; and (ii) certain projects undertaken during the Year carried a relatively lower gross profit margin for the purpose of penetrating into the bioprocess market and retaining long term customers.

### ***Clean Room and Automation Control and Monitoring System***

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB11.9 million or 24.7% from approximately RMB48.3 million for the year ended 31 December 2014 to approximately RMB36.4 million for

the year ended 31 December 2015. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 33.0% for the year ended 31 December 2014 to approximately 25.6% for the year ended 31 December 2015, which was mainly attributable to prolonged execution time for certain projects due to subsequent modification of users requirements for certain projects undertaken by the Group.

### ***Powder and Solid System***

The Group's gross profit from the business segment of Powder and Solid System decreased by approximately RMB9.3 million or 44.3% from approximately RMB21.1 million for the year ended 31 December 2014 to approximately RMB11.8 million for the year ended 31 December 2015. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 43.6% for the year ended 31 December 2014 to approximately 27.8% for the year ended 31 December 2015, which was mainly resulted from the launching of our new model of powder and solid system, which despite having a lower gross profit margin, formed a key component in the Group's provision of integrated engineering solutions.

### ***GMP Compliance Service***

The Group's gross profit from the business segment of GMP Compliance Service decreased by approximately RMB14.7 million or 49.3% from approximately RMB29.8 million for the year ended 31 December 2014 to approximately RMB15.1 million for the year ended 31 December 2015. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 58.7% for the year ended 31 December 2014 to approximately 46.8% for the year ended 31 December 2015, which was mainly due to (i) increase in staff costs during the Year; (ii) decrease in revenue recognised due to decrease in acceptance of order-in-take in the business segment of GMP Compliance Service in the Year.

### ***Life Science Consumables***

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB5.6 million or 20% from approximately RMB28.4 million for the year ended 31 December 2014 to approximately RMB34.0 million for the year ended 31 December 2015. The gross profit margin from the business segment of Life Science Consumables remained relatively stable at approximately 43.4% for the year ended 31 December 2015 as compared with approximately 42.2% for the year ended 31 December 2014.

### ***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 RMB2.1 million or 18% from approximately RMB11.6 million for the year ended 31 December 2014 to approximately RMB9.5 million for the year ended 31 December 2015. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 46.1% for the year ended 31 December 2014 to approximately 37.4% for the year ended 31 December 2015, which was 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 RMB0.8 million or 36.4% to approximately RMB2.9 million for the year ended 31 December 2015 from approximately RMB2.1 million for the year ended 31 December 2014, mainly attributable to the increase in the subsidies granted by local government authorities of the PRC in the Year.

### **Other gains/losses**

Other gain improved by approximately RMB566,000 to a gain of approximately RMB278,000 for the year ended 31 December 2015 from a loss of approximately RMB288,000 for the year ended 31 December 2014, mainly attributable to gain on derivatives financial assets at fair value during the Year.

### **Selling and marketing expenses**

Selling and marketing expenses increased by approximately RMB5.9 million or 9.0% to approximately RMB71.0 million for the year ended 31 December 2015 from approximately RMB65.1 million for the year ended 31 December 2014. The increase was primarily due to the increase in the staff costs and market promotion expenses.

### **Administrative expenses**

Administrative expenses decreased by approximately RMB1.1 million or 1.9% to approximately RMB56.2 million for the year ended 31 December 2015 from approximately RMB57.3 million for the year ended 31 December 2014. The decrease was primarily due to decrease in legal and professional fees of approximately RMB11.0 million incurred for the year ended 31 December

2014 as a result of the Group's preparation for listing on the Stock Exchange but such decrease was partially offset by the increase in staff costs by approximately RMB3.4 million or 14.9%, mainly attributable to increase in salary increase of management staff.

### **Research and development expenses**

As at 31 December 2015, the Group had 29 research and development personnel which accounted for approximately 3.5% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses increased by approximately RMB3.3 million or 14.0% to approximately RMB26.9 million for the year ended 31 December 2015, compared to approximately RMB23.6 million for the year ended 31 December 2014, mainly due to our continuous efforts to enhance research and development activities.

### **Finance expenses – net**

Finance – net changed from net finance expenses of approximately RMB809,000 for the year ended 31 December 2014 to net finance expenses of approximately RMB928,000 for the year ended 31 December 2015, which was mainly due to (i) the increase in interest expenses of approximately RMB147,000 primarily resulting from the increase in average bank borrowings for the year ended 31 December 2015; and (ii) increase of exchange loss by approximately RMB2.2 million due to devaluation of the RMB which was partially offset by the increase in interest income by approximately RMB2.2 million.

### **Share of profit of joint ventures**

The Group's share of profit of joint ventures increased by approximately RMB1.1 million, from approximately RMB4.2 million for the year ended 31 December 2014 to approximately RMB5.3 million for the year ended 31 December 2015, which was primarily due to the increase in profit contribution from STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited and PALL-AUSTAR Lifesciences Limited.

### **Profit before income tax**

The Group's profit before income tax decreased by approximately 91.4% from approximately RMB87.8 million for the year ended 31 December 2014 to approximately RMB7.6 million for the year ended 31 December 2015 which was primarily due to the factors as described above in this section.

## Income tax expense

Income tax expense decreased by approximately RMB21.4 million to approximately RMB1.2 million for the year ended 31 December 2015 from approximately RMB22.6 million for the year ended 31 December 2014, mainly due to the decrease in profit before income tax.

## Profit for the year

The Group's profit for the year decreased by approximately RMB58.8 million or 90.2% to approximately RMB6.4 million for the year ended 31 December 2015 from approximately RMB65.2 million for the year ended 31 December 2014. The net profit margin decreased from approximately 9.6% for the year ended 31 December 2014 to approximately 1.0% for the year ended 31 December 2015, which was primarily due to the factors as described above in this section.

## LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended	
	31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	<b>61,526</b>	(64,401)
Net cash (used in)/generated from investing activities	<b>(24,956)</b>	18,714
Net cash (used in)/generated from financing activities	<b>(22,284)</b>	288,772
Net increase in cash and cash equivalents	<b>14,286</b>	243,085

For the year ended 31 December 2015, the Group had net cash generated from operating activities of approximately RMB61.5 million mainly as a result of the profit before income tax of approximately RMB7.6 million generated in the Year, which was primarily adjusted for:

- i. the increase in trade and other payables of approximately RMB72.1 million;
- ii. the decrease in the trade and other receivables of approximately RMB28.4 million; and

- iii. the increase in amounts due from customers for contract work of approximately of RMB45.5 million mainly resulting from prolonged project execution undertaken for the year 2015.

For the year ended 31 December 2015, the Group had net cash used in investing activities of approximately RMB25.0 million, which was mainly attributable to:

- i. the prepayment to Shijiazhuang government authority of approximately RMB16.3 million in connection with the acquisition of the relevant land use right; and
- ii. purchase of property, plant and equipment of approximately RMB14.2 million which consisted of machinery and equipment purchased for various business segment.

For the year ended 31 December 2015, the Group had net cash used in financing activities of approximately RMB22.3 million mainly as a result of dividends paid to shareholders of the Company in 2015.

As at 31 December 2015 and 31 December 2014, the Group had cash and cash equivalents of approximately RMB393.4 million and RMB382.6 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB21.4 million and RMB4.2 million respectively.

#### **Net current assets**

The Group's net current assets as at 31 December 2015 had decreased by approximately RMB20.8 million, from approximately RMB494.7 million as at 31 December 2014 to approximately RMB473.9 million as at 31 December 2015.

As at 31 December 2015, the Group's total current assets amounted to approximately RMB867.1 million, which was an increase of approximately RMB67.7 million as compared with approximately RMB799.4 million as at 31 December 2014. The increase was primarily due to:

- i. the increase in contract work-in-progress of approximately RMB45.5 million primarily resulting from prolonged project execution undertaken for the year 2015;
- ii. the increase in cash and cash equivalents of approximately RMB10.8 million during the Year;

- iii. the increase in restricted cash of approximately RMB17.3 million during the Year but such increase was partially offset by the decrease in trade and notes receivables of approximately RMB23.8 million as a result of improved trade receivables control.

As at 31 December 2015, the Group's total current liabilities amounted to approximately RMB393.3 million, which was an increase of approximately RMB88.6 million as compared with approximately RMB304.7 million as at 31 December 2014. The increase was primarily due to:

- i. the increase in trade and other payables of approximately RMB72.4 million; and
- ii. the increase in amounts due to customers for contract work in the amount of approximately RMB21.2 million.

### **Borrowings and gearing ratio**

As at 31 December 2015, the total interest-bearing borrowings amounted to approximately RMB35.0 million, which remained unchanged as compared with that as at 31 December 2014, all denominated in RMB and carry interest rates of 5.62% to 6.16% (31 December 2014: 6.30%).

The Group's gearing ratio was approximately 6.4% as at 31 December 2015 (31 December 2014: 6.4%). The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

### **Pledged assets**

As at 31 December 2015, save for pledged bank deposits of approximately RMB21.4 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB9.3 million and approximately RMB6.0 million (31 December 2014: approximately RMB10.1 million and approximately RMB6.1 million respectively) which are pledged as security for short-term bank borrowings with carrying value of approximately RMB20 million (31 December 2014: approximately RMB35 million).

### **Contingent liabilities**

The Group did not have any material contingent liabilities as at 31 December 2015 (31 December 2014: Nil).

## **HUMAN RESOURCES**

As at 31 December 2015, the Group had 840 full-time employees for, inter alia, research and development, sales and marketing, administration, project management and execution and manufacturing, representing a decrease of approximately 16.3% as compared with 1,003 employees as at 31 December 2014. The employee costs (including the Directors' remuneration) were approximately RMB139.0 million, which was an increase of approximately 14.3% as compared with approximately RMB121.6 million for the year ended 31 December 2014.

Employee costs of the Group increased mainly due to 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 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**

Capital expenditure of property, plant and equipment authorised by the Board which has not been contracted for as of 31 December 2015 amounted to RMB141,435,000 (31 December 2014: 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 and HK dollar. Foreign exchange risk arises from the sales of the Group's products and services to overseas customers who settle payments in foreign currencies and the foreign currencies held by the Group's subsidiaries and offices. The Directors do not consider the foreign exchange rate risks as material to the Group and therefore, did not carry out any financial instruments such as forward currency exchange contracts to hedge the risks.



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

On 7 November 2014, the ordinary shares of the Company were first listed on the Stock Exchange following the completion of its initial public offering (the “**IPO**”). As at 31 December 2015, out of the aggregated net proceeds from the IPO of approximately HK\$411.8 million, (i) as to approximately RMB11.3 million (equivalent to approximately HK\$14.0 million) had been utilised for general research and development; (ii) as to approximately RMB3.8 million (equivalent to approximately HK\$4.8 million) had been utilised for sales and marketing; (iii) as to approximately RMB28.5 million (equivalent to approximately HK\$36.0 million) had been applied for as general working capital of the Group; (iv) as to approximately RMB16.3 million (equivalent to approximately HK\$20.4 million) had been applied for prepayment of premium in connection with acquisition of land use right as explained below; and (v) the remaining of approximately RMB260.1 million (equivalent to approximately HK\$336.6 million) has been deposited into the banks and has not yet been utilised. Such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed “Future Plans and Use of proceeds” in the prospectus of the Company dated 28 October 2014.

As at 31 December 2015, land premium of approximately RMB16.3 million (including approximately RMB12.5 million paid in June 2015 and approximately RMB3.8 million paid in July 2015) (the “**Premium**”) had been prepaid to the Shijiazhuang Government in connection with the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone (the “**Zone**”). The Company was given to understand that the Premium paid to the Shijiazhuang Government was for the purpose of facilitating the land expropriation process and increasing the lands available for tender in the Zone by the Shijiazhuang Government. Based on information currently available to the Company, it is intended by the Shijiazhuang Government that a parcel of land with an area of approximately 54,000 sq. m. will be listed for tender and transferred by the third quarter of 2016. Subject to the signing of a legally binding agreement between the Shijiazhuang Government and the Company, the Premium paid by the Company shall be applied as part payment of the consideration for the acquisition of the land use rights of a piece of land in the Zone.

As at the date hereof, the Company's intention to build the Shijiazhuang R&D and Production Centre on such land remains unchanged and the remaining net proceeds from the IPO allocated for such purpose will remain to be held by the Company for the planned future construction.

## **EVENT AFTER THE REPORTING YEAR**

Save as disclosed elsewhere under the section headed “Management Discussion and Analysis”, there is no material subsequent event undertaken by the Company or by the Group after 31 December 2015 and up to the date of this announcement.

## **CORPORATE GOVERNANCE PRACTICE**

The Company recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. The Company has adopted a code of corporate governance, containing the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) (the “**Corporate Governance Code**”).

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

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

## **COMPLIANCE WITH THE MODEL CODE BY DIRECTORS**

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

## **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES**

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

## **AUDIT COMMITTEE**

The audit committee of the Company (the “**Audit Committee**”) was established with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Cheung Lap Kei (as chairman), Madam Chiu Hoi Shan and Madam Ji Lingling. The principal duties of the Audit Committee include review of the Company’s financial reporting procedure, internal controls and interim and annual results of the Group. The Group’s annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee.

## **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: HK\$0.05).

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This announcement will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website ([www.austar.com.hk](http://www.austar.com.hk)). The annual report of the Company for the year ended 31 December 2015 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

## **APPRECIATION**

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

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

Hong Kong, 29 March 2016

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