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 2018

	2018	2017
	RMB'000	*RMB'000*
Revenue	**816,585**	546,933
Gross profit	**204,394**	121,532
Profit/(loss) before income tax	**3,498**	(58,420)
Profit/(loss) attributable to the owners of the Company	**107**	(54,085)
Total assets	**1,071,370**	881,567
Net assets	**482,923**	480,387
Gross profit margin	**25.0%**	22.2%
Current ratio	**1.5**	1.9
Gearing ratio	**5.4%**	4.2%
Net debt to equity ratio	**Net Cash**	Net Cash
Basic earnings/(loss) per share (Note)	**RMB0.00**	RMB(0.11)
Diluted earnings/(loss) per share	**RMB0.00**	RMB(0.11)

Note:

The calculation of earnings/(loss) per share is based on the profit/(loss) attributable to the owners of the Company for each of the year ended 31 December 2018 and 2017 and the weighted average number of shares during that year.

ANNUAL RESULTS

The board ("**Board**") of directors ("**Directors**", each a "**Director**") of Austar Lifesciences Limited ("**Company**" or "**Austar**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 ("**Year**"), together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**For the year ended 31 December 2018** ***RMB'000***	For the year ended 31 December 2017 *RMB'000*
Revenue	*3*	**816,585**	546,933
Cost of sales	*6*	**(612,191)**	(425,401)
Gross profit		**204,394**	121,532
Selling and marketing expenses	*6*	**(105,635)**	(100,473)
Administrative expenses	*6*	**(77,450)**	(70,946)
Net impairment losses on financial and contract assets		**(4,066)**	–
Research and development expenses	*6*	**(30,308)**	(26,062)
Other income		**3,148**	7,438
Other (losses)/gains – net	*5*	**(1,667)**	1,001
Operating loss		**(11,584)**	(67,510)
Finance income	*4*	**5,073**	4,332
Finance costs	*4*	**(1,653)**	(423)
Finance income – net		**3,420**	3,909
Share of net profit of investments accounted for using the equity method		**11,662**	5,181
Profit/(loss) before income tax		**3,498**	(58,420)
Income tax (expense)/credit	*8*	**(3,378)**	4,223
Profit/(loss) for the year		**120**	(54,197)
Profit/(loss) attributable to:			
The owners of the Company		**107**	(54,085)
Non-controlling interests		13	(112)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**For the year ended 31 December 2018**	For the year ended 31 December 2017
		RMB'000	*RMB'000*
Profit/(loss) for the year		**120**	(54,197)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**8,774**	(15,340)
Changes in the fair value of financial assets at fair value through other comprehensive income		**(129)**	–
Share of other comprehensive income of investments accounted for using the equity method		**(277)**	1,752
Other comprehensive income for the year, net of tax		**8,368**	(13,588)
Total comprehensive income for the year		**8,488**	(67,785)
Total comprehensive income attributable to:			
The owners of the Company		**8,475**	(67,673)
Non-controlling interests		**13**	(112)
		8,488	(67,785)
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company – basic and diluted (RMB)	*9*	**0.00**	(0.11)

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December 2018**	As at 31 December 2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**50,569**	41,868
Land use rights		**54,212**	5,650
Intangible assets		**9,012**	6,469
Deferred income tax assets		**7,264**	8,257
Investments accounted for using the equity method		**47,728**	39,608
Prepayments and other receivables		**9,724**	8,464
Other non-current assets		**–**	16,295
Total non-current assets		**178,509**	126,611
Current assets			
Inventories		**131,885**	77,120
Contract assets and other assets	*12*	**126,235**	–
Amounts due from customers for contract work		**–**	115,157
Trade and notes receivables	*11*	**286,133**	209,948
Prepayments and other receivables		**55,127**	35,338
Pledged bank deposits		**96,816**	7,870
Term deposits with initial terms of over three months		**206**	203
Cash and cash equivalents		**196,459**	309,320
Total current assets		**892,861**	754,956
Total assets		**1,071,370**	881,567
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,071**	4,071
Reserves		**384,078**	375,657
Retained earnings		**92,815**	98,713
		480,964	478,441
Non-controlling interests		**1,959**	1,946
Total equity		**482,923**	480,387

CONSOLIDATED BALANCE SHEET *(continued)*

	Note	**As at 31 December 2018** ***RMB'000***	As at 31 December 2017 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**3,511**	555
Deferred income tax liabilities		**8,009**	8,963
Total non-current liabilities		**11,520**	9,518
Current liabilities			
Trade and other payables	*13*	**356,077**	298,006
Contract liabilities	*12*	**193,977**	–
Amounts due to customers for contract work		**–**	72,734
Current income tax liabilities		**985**	922
Short-term borrowings	*14*	**25,888**	20,000
Total current liabilities		**576,927**	391,662
Total liabilities		**588,447**	401,180
Total equity and liabilities		**1,071,370**	881,567

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 January 2014 as an exempted company with limited liability under the Companies Law, Chapter 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 ("**PRC**" or "**China**"). The ultimate holding company of the Company is Standard Fortune Holdings Limited, a company incorporated in the British Virgin Islands ("**BVI**") with limited liability and wholly owned by Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**"), 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 ("**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 7 November 2014.

The consolidated financial statements are presented in thousands of Renminbi Yuan ("**RMB**") unless otherwise stated, and is approved for issue by the Board on 28 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers

The Group had changed its accounting policies and make adjustments following the adoption of IFRS9 and IFRS15. The other amendments and interpretations to existing standards that are effective for the financial year from 1 January 2018 did not have material impact or are not relevant to the Group.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective are expected to have a material impact on the Group.

2.2 Changes in accounting policies and disclosures

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

2.2.1 IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The impact of adoption IFRS 9

The Group has four types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables
- notes receivables
- contract assets
- other receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred losses. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. At the date of initial application of IFRS 9 (1 January 2018), the Group's management has assessed which business models applied to the financial assets held by the Group and the application of IFRS 9 does not have material impact on the classification, recognition and measurement of financial assets held by the Group.

2.2.2 IFRS 15 Revenue from Contracts

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings in 2018.

The following tables show the adjustments recognised for each affected individual line item as at 1 January 2018 the date of initial recognition. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Reclassification and adjustments to balance sheet as at 1 January 2018

	As at 31 December 2017			As at 1 January 2018
Balance sheet (extract)	**As previously stated** *RMB'000*	**Reclassifications under IFRS 15** *RMB'000*	**Remeasurement under IFRS 15** *RMB'000*	**Restated** *RMB'000*
Non-current assets				
Investments accounted for using the equity method	39,608	—	(1,608)	38,000
Current assets				
Inventories	77,120	—	18,344	95,464
Contract assets and other assets	—	118,440	(3,001)	115,439
Amounts due from customers for contract work	115,157	(115,157)	—	—
Trade and notes receivables	209,948	—	(2,940)	207,008
Total assets	881,567	3,283	10,795	895,645
Non-current liabilities				
Deferred income tax liabilities	8,963	—	(303)	8,660
Current liabilities				
Trade and other payables	298,006	(45,199)	(317)	252,490
Contract liabilities	—	121,216	17,367	138,583
Amounts due to customers for contract work	72,734	(72,734)	—	—
Total liabilities	401,180	3,283	16,747	421,210
Equity				
Reserves	375,657	—	53	375,710
Retained earnings	98,713	—	(6,005)	92,708
Total equity	480,387	—	(5,952)	474,435

3. SEGMENT INFORMATION

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

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

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

The segment results for the year ended 31 December 2018 are as follows:

	Liquid and Bioprocess System *RMB'000*	Clean Room and Automation Control and Monitoring System *RMB'000*	Powder and Solid System *RMB'000*	GMP Compliance Service *RMB'000*	Life Science Consumables *RMB'000*	Distribution and Agency of Pharmaceutical Equipment *RMB'000*	Total *RMB'000*
Segment revenue and results							
Segment revenue	**350,953**	**207,397**	**93,001**	**38,968**	**191,309**	**21,534**	**903,162**
Inter-segment revenue	**(30,112)**	**(42,685)**	**(1,649)**	**(2,088)**	**(4,135)**	**(5,908)**	**(86,577)**
Revenue	**320,841**	**164,712**	**91,352**	**36,880**	**187,174**	**15,626**	**816,585**
Recognised at a point in time	**246,969**	**31,609**	**26,005**	**2,283**	**187,174**	**15,417**	**509,457**
Recognised over time	**73,872**	**133,103**	**65,347**	**34,597**	**-**	**209**	**307,128**
Cost of sales	**(280,270)**	**(128,989)**	**(61,794)**	**(17,948)**	**(113,192)**	**(9,998)**	**(612,191)**
Segment results							
Gross profit	**40,571**	**35,723**	**29,558**	**18,932**	**73,982**	**5,628**	**204,394**
Other segment items							
Amortisation	**1,142**	**728**	**90**	**36**	**14**	**13**	**2,023**
Depreciation	**4,559**	**1,692**	**548**	**219**	**475**	**80**	**7,573**
Net impairment losses on financial and contract assets	**1,146**	**1,275**	**880**	**353**	**347**	**65**	**4,066**
Impairment of inventories	**5,328**	**293**	**140**	**58**	**1,026**	**23**	**6,868**
Share of net profit of investments accounted for using the equity method	**3,418**	**4,180**	**–**	**–**	**4,064**	**–**	**11,662**

The segment results for the year ended 31 December 2017 are as follows:

	Liquid and Bioprocess System *RMB'000*	Clean Room and Automation Control and Monitoring System *RMB'000*	Powder and Solid System *RMB'000*	GMP Compliance Service *RMB'000*	Life Science Consumables *RMB'000*	Distribution and Agency of Pharmaceutical Equipment *RMB'000*	Total *RMB'000*
Segment revenue and results							
Segment revenue	196,367	133,505	58,685	43,763	156,584	19,225	608,129
Inter-segment revenue	(28,656)	(5,471)	(1,503)	(18,305)	(5,558)	(1,703)	(61,196)
Revenue	167,711	128,034	57,182	25,458	151,026	17,522	546,933
Cost of sales	(170,808)	(97,298)	(39,787)	(12,811)	(92,741)	(11,956)	(425,401)
Segment results							
Gross (loss)/profit	(3,097)	30,736	17,395	12,647	58,285	5,566	121,532
Other segment items							
Amortisation	841	58	30	6	–	10	945
Depreciation	4,829	1,997	489	96	366	137	7,914
Impairment of trade and notes receivables	253	1,338	740	355	819	226	3,731
Impairment of inventories	7,745	495	–	–	653	17	8,910
Impairment provision on amount due from customers for contract work	4,115	60	57	–	–	–	4,232
Reversal of impairment of prepayments and other receivables	–	(15)	(7)	(1)	–	(2)	(25)
Share of net profit of investments accounted for using the equity method	1,157	909	–	–	3,115	–	5,181

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Liquid and Bioprocess System	**40,571**	(3,097)
Clean Room and Automation Control and Monitoring System	**35,723**	30,736
Powder and Solid System	**29,558**	17,395
GMP Compliance Service	**18,932**	12,647
Life Science Consumables	**73,982**	58,285
Distribution and Agency of Pharmaceutical Equipment	**5,628**	5,566
Total gross profit for reportable segments	**204,394**	121,532
Selling and marketing expenses	**(105,635)**	(100,473)
Administrative expenses	**(77,450)**	(70,946)
Net impairment losses on financial and contract assets	**(4,066)**	–
Research and development expenses	**(30,308)**	(26,062)
Other income	**3,148**	7,438
Other (losses)/gains – net	**(1,667)**	1,001
Finance income – net	**3,420**	3,909
Share of net profit of investments accounted for using equity method	**11,662**	5,181
Profit/(loss) before income tax	**3,498**	(58,420)

The segment assets as at 31 December 2018 and 2017 are as follows:

	As at 31 December 2018		As at 31 December 2017	
	Total assets	**Investments accounted for using the equity method**	Total assets	Investments accounted for using the equity method
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Liquid and Bioprocess System	**306,283**	**12,164**	209,103	11,984
Clean Room and Automation Control and Monitoring System	**185,321**	**21,923**	138,109	17,615
Powder and Solid System	**65,426**	**–**	45,914	–
GMP Compliance Service	**24,256**	**–**	22,254	–
Life Science Consumables	**87,610**	**13,641**	64,806	10,009
Distribution and Agency of Pharmaceutical Equipment	**11,673**	**–**	9,238	–
Total segment assets	**680,569**	**47,728**	489,424	39,608
Unallocated				
Deferred income tax assets	**7,264**		8,257	
Headquarter assets	**383,537**		383,886	
Total assets	**1,071,370**		881,567	

Geographical information

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Revenue		
Mainland China	**766,057**	481,844
Other locations	**50,528**	65,089
	816,585	546,933

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Non-current assets other than deferred tax assets		
Mainland China	**113,669**	70,139
Other locations	**57,576**	48,215
	171,245	118,354

4. FINANCE INCOME – NET

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Interest expenses for short-term bank loan	**(1,445)**	(1,223)
Exchange (losses)/gains	**(208)**	800
Finance costs	**(1,653)**	(423)
Finance income		
– bank deposits	**4,582**	3,882
– loan to PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**")	**491**	450
	5,073	4,332
	3,420	3,909

5. OTHER (LOSSES)/GAINS – NET

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(175)**	(20)
Exchange (losses)/gains	**(1,328)**	630
Others	**(164)**	391
	(1,667)	1,001

6. EXPENSES BY NATURE

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Raw materials	**485,646**	311,130
Staff costs, including directors' emoluments *(Note 7)*	**162,787**	139,253
Depreciation	**7,573**	7,914
Amortisation	**2,023**	945
Sales tax and surcharges	**3,553**	3,451
Office expenses	**11,032**	8,272
Travel expenses	**38,211**	32,236
Freight and port charges	**14,012**	12,569
Promotion expenses	**16,453**	17,812
Warranty provision	**4,279**	6,912
Impairment of trade and notes receivables	**–**	3,731
Impairment of inventories	**6,868**	8,910
Impairment of amounts due from customers for contract work	**–**	4,232
Impairment/(reversal) of prepayments and other receivables	**101**	(25)
Professional fees	**8,281**	7,875
Auditor's remuneration		
– Audit service	**3,194**	3,835
– Non audit service	**1,270**	994
Rental expenses	**9,939**	8,878
Communication expenses	**1,773**	1,839
On-site subcontract fee	**24,671**	12,556
Other operating expenses	**23,918**	29,563
	825,584	622,882

7. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Salaries and bonuses	**126,857**	107,033
Pension and social obligations	**35,930**	32,220
	162,787	139,253

8. INCOME TAX (EXPENSE)/CREDIT

	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*
Current income tax expense	**(3,036)**	(1,755)
Deferred income tax (expense)/credit	**(342)**	5,978
	(3,378)	4,223

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

The Group's subsidiaries incorporated in the BVI under the International Business Companies Acts or, as the case may be, BVI Business Companies Act of the BVI are exempted from local income tax.

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the year (2017: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the year (2017: 15.0%).

Corporate income tax in the PRC is calculated based on the statutory profit or loss of the subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar SJZ**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2014 and renewed its "High and New Technology Enterprise" qualification for another three years in 2015. During the year ended 31 December 2018, Auatar SJZ renewed its "High and New Technology Enterprise" qualification for another three years. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2016.

9. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	For the year ended 31 December 2018	For the year ended 31 December 2017
Profit/(loss) attributable to the owners of the Company *(RMB'000)*	**107**	(54,085)
Weighted average number of ordinary shares in issue *(Thousands)*	**512,582**	512,582
Basic earnings/(loss) per share *(RMB)*	**0.00**	(0.11)

(b) Diluted

As the Company had no dilutive ordinary shares for each of the year ended 31 December 2018 and 2017, dilutive earnings/(loss) per share for the years ended 31 December 2018 and 2017 are the same as basic earnings/(loss) per share.

10. DIVIDENDS

The Board did not propose any final dividend for the year ended 31 December 2018 (2017: Nil).

11. TRADE AND NOTES RECEIVABLES

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Trade receivables *(Note (b))*	**227,222**	188,650
Notes receivable *(Note (a))*	**80,115**	40,306
	307,337	228,956
Less: loss allowance	**(21,204)**	(19,008)
	286,133	209,948

Notes:

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2017: within six months).

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

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Within 6 months	**141,334**	111,765
6 months to 1 year	**20,817**	22,538
1 to 2 years	**43,624**	31,788
2 to 3 years	**8,581**	11,819
Over 3 years	**12,866**	10,740
	227,222	188,650

Most of the trade receivables are due within 90 days in accordance with the sales contracts, except for retention money which would normally due on one year after the completion of the sales.

12. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Contract assets	**128,547**	–
Loss allowance of contract assets	**(5,674)**	–
	122,873	–
Costs incurred to obtain contracts	**3,362**	–
Total contract assets and other assets	**126,235**	–
Contract liabilities	**(193,977)**	–

13. TRADE AND OTHER PAYABLES

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Trade payables	**215,007**	136,928
Notes payables	**25,934**	27,207
Advances from customers	**–**	48,482
Payroll and welfare payable	**37,622**	23,436
Taxes other than income taxes payable	**12,845**	5,669
Warranty provision	**6,250**	6,282
Accrued expenses	**16,772**	19,991
Employee payable	**7,552**	5,528
Others	**34,095**	24,483
	356,077	298,006

The ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Within 6 months	**194,042**	101,787
6 months to 1 year	**9,231**	19,491
1 to 2 years	**5,127**	10,154
2 to 3 years	**2,143**	3,238
Over 3 years	**4,464**	2,258
	215,007	136,928

14. SHORT-TERM BORROWINGS

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Bank borrowings		
– Secured *(Note)*	**20,000**	5,000
– Guaranteed	**–**	15,000
Notes discounted with recourse	**5,888**	–
	25,888	20,000

Note:

As at 31 December 2018, secured short-term bank borrowing is denominated in RMB, secured by the Group's buildings and land use rights. For the year ended 31 December 2018, the short-term bank borrowing bears interest rate from 4.35% to 4.79% (2017: 4.35% Secured; 4.79% Guaranteed) per annum and is repayable within one year.

Market Review

In 2018, increasing expectations on better efficacy and safety of drug products and medical services from the regulatory authorities and the public provided unprecedented opportunities and huge challenges to the global pharmaceutical industry.

For PRC regulatory activities: The National Medical Products Administration (NMPA) of China continued adherence to the "Four Most Stringent Rules" in regulatory activities and more attention was paid to the elimination and rectification of high risk products. In Good Manufacturing Practice (GMP), regulatory approaches such as unannounced inspections and inspections for specific reasons were utilised. In addition, after the Changchun Vaccine Event the vaccine regulation system was further optimised. NMPA became a member of International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) in 2017 and was elected to its management committee in 2018, and various regulations and policies were further developed in the areas of drug registration and submission. Other regulatory activities aimed at supporting the overall goals of higher quality product development include the strengthening of the reform in the drug review and approval system, the biological-equivalence study for generic drugs, the implementation of the drug lifecycle approach, the support of research and development (R&D) innovations and the encouragement of United States ("**US**") and China drug submissions.

For EU regulatory activities: European Union ("**EU**") issued the guides on GMP for the production of biological drug substances and drug products, parameter release and advanced therapy medical products (ATMP) as a result of the new product and new technology requirements due to scientific and technological development in the industry. Among the GMP inspection observations by EU in 2018, the number of EU inspections in China is about half of that in India, there is still a lot of room for Chinese drug manufacturers to improve to catch up their Indian peers.

For US Inspections: The US Food and Drug Administration (FDA) issued the guides on changes after approval for active pharmaceutical ingredients (APIs), eutectics and advanced therapy medical products. The expansion of the mutual recognition between EU and the US to the recognition of the regulatory inspections, the international harmonisation and cooperation of drug regulatory would be in a proactive development mode.

For Pharmaceutical Inspection Co-operation Scheme (PIC/S) regulatory activities: Their GMP guides have accepted the EU guide. Attentions are paid to the comments on the data integrity guide of PIC/S by the stakeholders. For World Health Organization (WHO) regulatory activities, the regulation of vaccines has been strengthened. A new working team has been established with PIC/S to revise the Annex 2 Biological Products and ATMP.

On 20 December 2017, the European Commission published the long-awaited revision draft of Annex 1 "Manufacture of Sterile Medicinal Products" of the EU Guideline for good manufacturing practice for drug products and drug substances. The present draft is the first complete revision of the guideline. It was designed to address new issues like quality risk management as well as new technologies and procedures. A new structure was developed in close collaboration by the WHO and PIC/S in order to maintain a sensible linkage with their standards and recommendations and thereby to reach globally agreed standards. The Company has been actively studying these new regulatory guidelines to adapt our product lines with service, knowledge and capacities to cope with the updates, which brought about business opportunities for the Group.

The Group's customers are more aware of the importance of the use of information technology, especially software technology, to provide intelligent control solutions for facilities, to create smart factories, to reshape their companies' new image and enhance competitiveness. With in-depth application of information technology, software and information systems control, the work-flow of material, capital, and knowledge will become the brain of the companies to which the Group is serving. More aggressive business development initiative for LEAN-Operation-Improvement Information System consulting will be launched by the Group.

Due to increasing concerns on substantiality, social responsibilities and environment protection, "Green Pharmaceutical" has gained a momentum that more Chinese pharmaceutical companies are considering and planning to build advanced, unmanned, green, efficient and safe smart factories. The Group have been matching this market trend by introducing our Containment Technology Application, Heating Ventilation and Air Conditioning (HVAC) and Sustainability Application, Pharma IT Application to the market.

The new amendments to the Rules Governing the Listing of Securities ("**Listing Rules**") on the Stock Exchange which came into effect on 30 April 2018 introduces a listing regime for companies from emerging and innovative sectors which, among other things, now permits pre-revenue biotech companies that do not meet the Main Board financial eligibility tests to list on the Stock Exchange. The change of the listing policies encourages some start-up biotech companies and biotech companies with products still in clinical phases to go public in Hong Kong for further fund raising, and in a way provides venture capital funds to have more exit opportunities. It is believed that fund raising and investment in biotech pharmaceutical companies will increase in the coming years, and more capital investment (CAPEX) investment from those biotech companies with venture capital investment are expected. The momentum on the investment on drug research and development especially on biologics drugs is expected to be accelerating. All the above creates opportunities for companies involved in laboratory instrument, equipment, and compliance consulting services.

Business Review

The Group maintains as a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and emerging countries. The Group dedicates to provide equipment-engineering-service-consumables turnkey solutions and to promote industry advancement and create value for the pharmaceutical industry in the PRC. The Group's main business can be categorized into 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 its customers. A new business synergy function has been established, now still under development, and expected to be in full operations in 2020, with the following mission:

(a) to help integrate business units and product lines by strategic consulting in front of customers and markets to increase project acquisition success rates;

(b) to help integrate our scattered services among product lines in different business units to be streamlined and promoted under one brand and life-cycle-management concept; and

(c) to create new strategic consulting business in the aspects of bioprocess, Pharma IT and Lean Operations.

During the Year, momentum of sales order-in-take of the Group has regained its energies and its order-in-take has reached a record high with a sharp growth of 39.2%. The revenue recognised for the Year has recorded an increase of 49.3%. It is believed that the revenue for the year 2019 will very likely be able to achieve a similar trend as in the year 2018 as evidenced by the growth figures of sales order-in-take. With our corporate strategies and commitment on our visions and strategies, our Group is still aggressive in investing in human resources, geographical expansion and enchancing product and application solution competences, with the intention to bring about more satisfactory business results for our shareholders.

The Group has been undergoing a serious review on its product lines and trying to find new solutions by combining various product lines together to offer the most cost-effective integrated solutions. The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life-science process technology and applications and industry regulatory rules and practices, being able to help customers to address issues in quality, compliance and operation excellence. Our vision statement was revised and presented to the public in 2018:

1. to become a globally recognised best technical product and service and solution provider to pharmaceutical researchers and manufacturers;

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

3. to gather global resources and leverage products and services empowered with cost and technical advantageous features, and to help upgrading the pharmaceutical industry in emerging countries.

Order-in-take

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

	For the year ended 31 December				
	2018		2017		Change
Order-in-take by business segment	***RMB'000***	*%*	*RMB'000*	*%*	*%*
Liquid and Bioprocess System	**434,097**	**38.9%**	292,153	36.4%	48.6%
Clean Room and Automation Control and Monitoring System	**268,124**	**24.0%**	205,620	25.6%	30.4%
Powder and Solid System	**125,529**	**11.2%**	79,437	9.9%	58.0%
GMP Compliance Service	**46,602**	**4.2%**	38,172	4.8%	22.1%
Life Science Consumables	**215,740**	**19.3%**	168,538	21.0%	28.0%
Distribution and Agency of Pharmaceutical Equipment	**26,371**	**2.4%**	18,098	2.3%	45.7%
Total	**1,116,463**	**100.0%**	802,018	100.0%	39.2%

During the Year, the total order-in-take amounted to approximately RMB1,116.5 million, representing a significant increase of approximately 39.2% from approximately RMB802.0 million for the year ended 31 December 2017, mainly attributable to the increase in order-in-take amount of the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System and Life Science Consumables. Driven by persistent marketing efforts especially through exhibitions, industry conferences and seminars, synergy and partnership sales model from sales teams' effort together covering customers' various demand of different products, supported by a strong and rich pipeline of products with high quality, and more business opportunities from more pharmaceutical industry CAPEX, the Group achieved a significant increase and strengthened its good position in the overall order-in-take volume, in spite of the continuous keen market competition faced in the Year. The Company will keep on its investment in market, product development, manufacturing capacity, as well as further recruiting talents in sales team, technology application team, industry expertise and etc., to strengthen the comprehensive competitiveness of the Group and support the Group's further growth.

Liquid and Bioprocess System

Through past several years' persistent endeavours, focusing on biopharmaceutical projects and supported by market recognition from high quality products, the Group secured several orders from key biologics companies, vaccines and monoclonal antibodies research and manufacturing, and successfully expanded its order-in-take amount in biopharmaceutical projects. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB434.1 million for the Year, representing an outstanding increase of approximately RMB141.9 million or 48.6% from approximately RMB292.2 million for the year ended 31 December 2017. In the coming few years, there will be potential huge growth in the biopharmaceutical field, as compared to conventional pharmaceutical chemical field. The Group will endeavour to pursue sustainable developments, build core competitiveness through integration and rich process automation experience and knowledge in the biopharmaceutical projects, and strive for the high-end market.

Clean Room and Automation Control and Monitoring System

Shanghai Aunity Pharmaceutical Science and Technology Limited ("**Aunity**"), the Group's new facility design non-wholly owned subsidiary established in the second half of 2017, brought more contribution to our clean room construction business by providing our integrated engineering solutions. Meanwhile during the Year, relying on strong system engineering knowledge and experience, our automation business team has been aggressively developing its services to support customers for the construction of smart factories. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB62.5 million or 30.4% from approximately RMB205.6 million for the year ended 31 December 2017 to approximately RMB268.1 million for the Year. The Group will continue developing various software to enhance our competence.

Powder and Solid System

Through continuous improvement in the core value of its product and technology upgrade since the establishment of a new oral solid dosage (OSD) product line in 2015, the Group acquired more business opportunities, gained the market recognition for its good quality, and experienced high-speed growth during the Year. The order-in-take amount of the business segment of Powder and Solid System increased by approximately RMB46.1 million or 58.0% from approximately RMB79.4 million for the year ended 31 December 2017 to approximately RMB125.5 million for the Year. The Group will continue to invest in the technology and continuously enhance its competitiveness in this business segment.

GMP Compliance Service

For the past few years, the Group has built a good reputation in GMP Compliance Services field through providing high quality service, and expanded the market share of high-end market by combining the Group's Technical Advisory Committee and global technical resources. The order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB8.4 million or 22.1% from approximately RMB38.2 million for the year ended 31 December 2017 to approximately RMB46.6 million for the Year.

Life Science Consumables

After several years' effort on the integration of various products and services, the Group is able to offer a complete solution of Washing, Disinfection and Sterilization. This unique competence made the business segment of Life Science Consumables continue to keep stable increase in the order-in-take amount by approximately RMB47.2 million or 28.0% from approximately RMB168.5 million for the year ended 31 December 2017 to approximately RMB215.7 million for the Year. The Group will continue to launch more diversified life science consumables and services with latest technology to its customers. This segment still has a huge potential growth after a rapid growth in the past three years.

Distribution and Agency of Pharmaceutical Equipment

During the Year, the Group, together with its joint ventures and overseas business partners, engaged in the 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 RMB8.3 million or 45.7% from approximately RMB18.1 million for the year ended 31 December 2017 to approximately RMB26.4 million for the Year.

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 2018:

	As at 31 December 2018			
Backlogs by business segment	*Number of Contracts*	*%*	*RMB'000*	*%*
Liquid and Bioprocess System	254	30.8%	318,788	46.6%
Clean Room and Automation Control and Monitoring System	216	26.2%	201,123	29.5%
Powder and Solid System	121	14.6%	72,238	10.6%
GMP Compliance Service	101	12.2%	53,780	7.9%
Distribution and Agency of Pharmaceutical Equipment	134	16.2%	36,960	5.4%
Total	826	100.0%	682,889	100.0%

Production, execution and organisation

During the Year, the establishment of a new production workshop in Germany for water equipment and biologics process system skids was under serious and thorough investigation. Scheduled to launch in 2019, the new production workshop is expected to enable the Group to support business growth opportunities of Liquid and Bioprocess System business in Europe, Middle East and North Africa and improve our presence in these regions. In the event that this plan is implemented, there would then have 3 production sites for water system equipment and biological process system equipment for China, other emerging countries and Europe. The Group's associate ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**") initiated an investment plan for extending its facilities in 2018 which is expected to be completed in the last quarter of 2019. With the new extension of the facility in Germany, ROTA is expected to have a higher capacity for accommodating higher order-in-take for the liquid filling line business and for installing and testing Austar's licensed freeze-dryer. This action is part of our "One Brand, One Site, One source" strategy for ROTA and its freeze-dryer. In addition, STERIS Corporation, our joint venture partner, decided to license a new product to the Group's joint venture, STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited and its subsidiaries ("**STERIS-AUSTAR JV**"), with this new product to be launched in 2019.

A LEAN manufacturing system establishment was initiated in December 2018 and LEAN trainings and improvement activities will last for years, which will further improve the whole operation system and can provide better products and service to customers with shorter lead time and better quality. IT-based production systems will be implemented for further improvement on management system especially on visual management and simplification of internal working process. The two main manufacturing centres of the Group in Shanghai and Shijiazhuang will be further harmonised to cooperate with each other to fulfil customer needs.

Our manufacturing centre at Shanghai has been focusing on capacity improvement to support sales and marketing development by facility expansion with support from the local government. In this regard, a land would be obtained with the support of the local government for the potential relocation of our Shanghai manufacturing centre on which a new facility with a substantially increased floor area will be constructed. Such potential expansion and movement plan of our Shanghai manufacturing centre is scheduled to be completed in 2020. Meanwhile, the Shanghai manufacturing centre will increase more CAPEX investment on automatic machines for further improvement on efficiency and quality.

During the Year, our manufacturing center at Shijiazhuang has undergone certain improvements such as:

1. Continuous improvement — to achieve enterprise QCD (quality, cost, and lead time) goals through standardisation, 5S (Kaizen) and elimination of "waste" (Muda). Kaizen focuses on the key to improvement, and rationalisation proposal offers reasonable suggestions to improve from the bottom up. Kaizen follows the five "golden rules" to continuously improve the activity procedures and establish the basis of efficient, successful and flat "Gemba" (現場) structure.

2. Culture improvement — by establishing the rationalisation proposal and suggestion box platform, employee motivation can be aligned with the plant's operating objectives; problems discovered in the operation process of employees are used to make up for the deficiency of "un-gemba" (去現場化) implemented by the middle management in policy formulation, process quality and other departments; and allowing more people to participate in the factory management and operations process improvement.

3. Visual management — by establishing a visual "Kanban" (看板) production information management, in the visual signal as the basic means, to open into basic principles, as far as possible allow every staff to see the management requirements and objectives, so as to promote the management of visible, autonomous management, self-control, realize the maximisation of the minimisation and management effect of control input, narrow progress tracking and audit management cost, obviously to ultimately improve manufacturing center management level.

Since the establishment of our Engineering Project Execution Centre in 2015, the team has been developing and consists of around 390 staff at the end of year 2018. This Engineering Project Execution Centre which has consolidated all key execution resources has been contributing a well-recognised pharmaceutical-related engineering and automation execution platform for all our business units and technology application within the Group. As a result, it is believed that the Group has one of the largest engineering project execution team in the pharmaceutical industry in the PRC with sophisticated IT-based project management information system in place together with process-piping, clean room and HVAC mechanical and electrical installation, automation system integration and validation and qualification capabilities all under one roof.

Our Engineering Project Execution Centre has been continuously taking action on improvement of knowledge and work process, which includes:

1. Successful completion of a hybrid system for bioproject which has achieved the sterile containment transfer of buffer solution from stainless steel system to single use system.

2. Our technical maintenance and service team has launched comprehensive water system overhauling and maintenance service.

3. Technical improvement of preparing the detail drawings before construction to help shorten project duration and save project cost.

4. Kaizen improvements and system standardisations which could shorten the duration of programming for all projects.

5. More than 80 external or internal training sessions conducted for all staff, which have improved their professional skills and project management knowledge and offered staff team-building activities.

Research and development

The Group has obtained more than 196 registered patents by the end of 2018. The Group obtained 29 registered patents including 6 invention patents during the Year, and applications for 51 patents are currently in progress.

To amplify the Group's capabilities in the containment field, based on its existing single-use bioprocess technologies and manufacturing capabilities, the Group has further developed a flexible containment system which could replace rigid containment equipment or components with more flexible well-designed flexible film formed system and reduce CAPEX investment requirement for its customers. In 2018 such flexible, instead of rigid, isolator applications were developed and applied. namely (1) contained feeding and discharging of the reactor; (2) contained discharging of centrifuge; (3) contained discharging of dryer; and (4) contained tableting machine and capsule filling machine. Single-use disposable for liquid filling system were developed for customer testing.

Clean room partition system with more thickness choices and ventilation effects, new material with more anti-corrosion and impact-resistance and better energy-saving window glass were under development.

Pharma IT Software like warehouse management system software and production batch electronic-record generation software have been developed and sold in 2018 for trials and customer applications.

The development of technology in large-scale freeze-drying equipment with core innovative technology of freeze-drying (NOD, BTM), energy saving and formulation optimisation management technology will help the Group to enhance its competence to a global first tier level.

The successful R&D achievement of downstream bioprocess equipment has allowed the Group to market a satisfactory number of units in 2018.

In 2018, two projects, one for vaccine and another for monoclonal antibody drug, were under execution with the Group's previously developed Hybrid BioProcess System with single-use disposable and stainless-steel vessels and combined right from the beginning of conceptual and process flow diagram design. The Group's downstream equipment such as deep filtration and ultrafiltration which was developed in 2017 was successfully sold, delivered and tested in 2018. Partnering with PALL-AUSTAR Lifesciences Limited, our joint venture, to produce the single-use disposable designed and developed by the Company to combine other engineering units' capacities like automation engineering, liquid stainless-steel vessel engineering and validation and testing capacities to offer the Hybrid BioProcess Engineering System is very unique in emerging countries and China.

The Group's API modular automated laboratory/pilot process system units were sold in 2018. Such units were developed in 2016 and officially launched in 2017, which was set as the Group's milestone of offering means for process development for pharmaceutical companies which are required to fulfil the new regulatory requirements by proper data integrity and has successfully sparked the awareness of customers in the market.

The wet granulation line for highly potent active and highly toxic drugs which was developed and launched in 2016 has recorded a significant increase in sales in the first half of 2018 as compared to that in 2017. Continuous manufacturing of APIs and OSD with applications of various advanced technologies has been put onto our R&D initial phase list. Continuous manufacturing in the pharmaceutical industry is a new development as batch production is still a normal practice in the industry mainly due to previously conservative considerations of regulatory and science and technology application. Due to recent openness and encouragement by the regulatory authorities, continuous manufacturing especially in OSD production is expected to be realistically achievable and offer a lot of quality and efficiency benefits.

Construction of a freeze-drying process laboratory will be completed and operated in the first half of 2019, and such laboratory was advised and supported by a German university expert. It is believed that this laboratory will be able to offer process technology improvement on our freeze-dryer design and able to offer process development support to our customers. Such investment on talents and laboratory facility will help us differentiate from other existing competitors.

Sales and Marketing

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to its customers in the PRC. Overseas sales are conducted through a mixture of direct, agency and distribution sales models. Due to the product application nature, sales teams from different product lines evolve gradually onto specific sector customer-focused sales teams, which are able to support customer contacts for different product lines. This is a synergy and partnership sales model which we have started to encourage during the Year. Technical seminars as our key marketing activities in emerging countries like Indonesia, India and Pakistan, North Africa were held in the first half of 2018, in echoing the road shows conducted in countries such as Jordan and Saudi Arabia in 2017. Educational content sharing with PRC provincial drug authorities via seminars were conducted with appreciations.

During the Year, in order to enhance the interaction between each product line and industry, to expand the business scope, to increase the market share and to strengthen the brand image, the Group participated in 6 exhibitions, 10 industry conferences, and organised 8 seminars.

In March 2018, the Center for Food and Drug Inspection of NMPA and China Center for Food and Drug International Exchange (CCFDIE) initiated the compilation of the Guidance for Oral Solid Preparation Process and Site Inspection ("**Guidance**"), which aimed to provide the regulatory authorities and industry with learning materials for oral solid preparation process, so as to enhance the capacity-building of drug regulatory team and promote the development of related industries in China. As a participating unit, Austar has been actively undertaking in the compilation of some chapters of the Guidance on solid preparation process equipment, validation, information construction and so on.

In 2018, quality and safety incidents had occurred frequently in the pharmaceutical industry. In order to help pharmaceutical enterprises to set up a standardised and systematic quality system, the Group and CCFDIE jointly held a seminar on pharmaceutical quality system construction and compliance practice, sharing on issues of the requirements of data integrity inspection on the production site of pharmaceutical enterprises, pharmaceutical quality system and data integrity, efficient validation strategy – control data flow in computerised GXP system, new ideas on validation in the pharmaceutical industry based on ASTM E2500 and current regulations and policies, etc., which was aimed to explore the best practices of drug quality system establishment and compliance, promote standardisation and systematisation construction of the pharmaceutical industry, and help strengthen the communication and exchange between the drug regulators and the manufacturers.

During the Year, the Group had participated in well-established exhibitions such as China International Pharmaceutical Machinery (CIPM) Expo, CPHI & P-MEC, Medtec, API Autumn Exhibition and China Pharm. By participating in the "Consistency Evaluation of Complex Injection Forum", the Group demonstrated its related products and technical service of microsphere technology; By participating in the "13th A-PBA Annual Biosafety Conference", the Group comprehensively demonstrated Austar's advanced equipment and technologies in microbiological control, disinfection and sterilization, and laboratory animal research; In the "China Biological Products Annual Conference" and the "2018 Human and Veterinary Vaccine Industry Summit", the capability of Austar's Biological Process System Engineering was fully demonstrated. In the 8th Drug Delivery & Formulation Asia Summit, the Group promoted its hot melt extrusion and microsphere technology equipment product line through presentations and exhibitions. In addition, by participating in the activities of the 2018 ISPE-CCFDIE China Conference and the Parenteral Drug Industry Congress, which was highly-influential in the pharmaceutical industry, the Group's consulting business of quality management system establishment was promoted.

Austar, at the same time, independently held the "2018 Technology Forum for Soft Capsule Preparation", the "3rd API Pharmaceutical Engineering Technology Forum", and the "Development Trend and New Technology Summit Forum of Microbial Control in Pharmaceutical Cleanroom" and many other seminars, which combined R&D with practice to explore the customers' demands.

The Group's first Germany-assembled purified water equipment partnered with H+E GmbH was exhibited in the CPHI WORLDWIDE Madrid event held in October 2018. The quality of this equipment reflected the equipment craftsmanship skills of Germany, and strengthened the Group's determination in establishing manufacturing capacities in Germany. Successful results from the North Africa seminars and the India/Indonesia seminars organised by the Group in 2018 with support from our partners STERIS Corporation and ROTA, the Group's Technical Advisory Committee members and the Group's biologics customers made the Group believe that the technologies of the Group's products and services can contribute to drug manufacturing development in those emerging countries. The Group has also participated in a key global marketing event, ACHEMA 2018, held at Frankfurt in June 2018, with one Austar booth exhibiting our project execution and automation capabilities; even though the exhibition was held during the period of Ramadan, there were a lot of visitors from Middle East and North Africa. The other booth with ROTA, which we exhibited an integrated Vial Filling Line and freeze-dryer connected with loading and unloading system, has obtained very positive responses at ACHEMA.

New social media opportunities are under thorough study and are expected to be launching out hopefully in 2019. Apart from conventional exhibitions in China, the Group is organising more specific conferences with the authorities like China National Food and Drug International Exchange Centre.

Prospects

Increase the market share in the PRC and the emerging countries

During the Year, there have been increases in the number of customers and number of projects for all key business segments of the Group. The Group's clean utility product line under the Liquid and Bioprocess System business segment is believed to have undergone a significant increase in market share in the PRC during the Year as reflected by a surge in sales of the Group's own-manufactured purified water equipment and those of STERIS-AUSTAR JV's, one of our joint ventures. The Group has also set up a team in India in 2018 focusing on the Liquid and Bioprocess System business segment with an aim to develop India and its neighbouring countries and to establish project execution capability in India. Russia and South Korea are important market for biologics. For Russia, after two years of evaluation, the Group believed that setting up its own team in doing direct sales in Russia will be a more cost-effective approach for success. More aggressive efforts in South Korea in sales and marketing, after the Group has identified a suitable partner, is expected to be launched from 2019.

By the efforts of sales organisation consolidation and further integration of products by the Group, a positive trend on the sales order-in-take performance is expected to continue in the coming months and years. Further breakthrough for turnkey clean room solutions in some sectors like medical devices and lab animal research are foreseeable. In Africa, an Infusion Solution Production Workshop Turnkey project involving all key business segments of the Group was acquired in the end of 2018. This would be a showcase project of the Group for the region.

The Group's presence of staff in the Middle East and North Africa has been generating more sales leads and enquiries, in particular after some technical seminars held in 2017 and 2018 have helped with our market recognition. Agent management process will be critical for those territories in which indirect sales channel are arranged, similar to other territories like Indonesia where under good management process including training and supervision has been demonstrating a success in order-in-take.

Improve services and product offerings

Apart from establishing its own visions and strategies by each business segment of the Group to implement improvements on their respective services and product offerings, the Group's technology application team has started to formalise their activities by creating their own mission, visions and tactics and strategic goals.

Mission:—

1. To help connect the scattered but related product lines onto one package of products with one key application concept.

2. To solve the customers' issues of quality, process, compliance and operational excellence.

3. To increase Austar's technological competence level and thus improve Austar's overall competitiveness as a key transformation Initiative.

Visions:—

1. Through the new value propositions from the technology application team's efforts, business results of more than 50% can be achieved than by proposing a single solution.

2. Creating technological and commercial value to customers, staff and vendors through specific technology applications.

3. Branding as a global technology application leader in 5 to 8 years.

Tactics and Strategic Goals:—

1. Using 4-level from Components/Software, Equipment, Systems to Application Solutions/ Facility to create partnership alliance among the sub-business units of the Group, vendors, suppliers and partners.

2. To become a technology application regional leader in 3 years and global leader in 5 to 8 years.

3. For 2019 — team establishment with common shared value and objectives with formalised cooperation structure and mechanism including meeting management and incentive scheme.

In the coming years, the service business will be one of the key growth elements for the Group as in general, it is independent of industry CAPEX investment in particular for preventive maintenance, compliance consulting, operation excellence improvement, upgrading of software and revamping of equipment and systems services. The Group believes that the offering of integrated services as a package of services by leveraging the strengths from different business segments of the Group is very unique in the pharmaceutical service industry. Aunity, our facility design subsidiary established in the second half of 2017, has proved in 2018 to be contributing to the overseas turnkey project business and in the meanwhile, this facility design subsidiary has received enough orders to support the initial stage of organisation development. The Group's facility design service product line is mainly to support the turnkey project business. It is our fundamental strategy to cooperate with all key regional and global Engineering, Procurement, and Construction (EPC) and Engineering, Procurement, Construction Management and Validation (EPCMV) companies as partners to support them with our components/software/equipment/ system/services to serve our common customers.

Liquid and Bioprocess System

In the last quarter of 2018 the Group partnered with STERIS Corporation to bid on several clean utility projects in Europe. Our European business development director of bioprocess system engineering was recruited in the last quarter of 2018 to explore more European manufacturing and execution capacities, develop new sales territories and support our established regional territories.

The Group's success in securing orders in 2018 from key biologics companies, vaccines and monoclonal antibodies research and manufacturers has proved that quality in products and efficient project execution could gain trust from customers, where most of the customers from such orders are return customers. In the first half of 2018, the Group successfully verified the process of the bioreactor at one animal vaccine process development laboratory in Beijing. The Group's first pharmaceutical water purification equipment assembled in Europe was exhibited in the CPHI/PMEC Madrid event held in October 2018, which would be our milestone of having equipment manufacturing and factory acceptance test being arranged in Europe. The Group's ultimate goal, is to offer optional factory acceptance test sites for our customers in Europe, Middle East and North Africa not only for water purification equipment but also for biologics process skid assembly. Our exclusive European water system expert have been supporting the Group for business development in Middle East, South East Asia and India. We expect opportunities to capture animal vaccine customers with our partnership with one Beijing animal vaccine process development laboratory, where one bioreactor manufactured by the Group has been installed to generate process data for the vaccines under development. The Group's Single-use Technology BioProcess Engineering team has started to obtain orders for the Hybrid BioProcess System, which can be differentiated from other competitors which are lacking in integration and process automation experience and knowledge.

The Group's associate ROTA made a successful year in 2018 in terms of financial performance and order-in-take. A newly extended production workshop and administration office to accommodate the foreseeable increase in orders and future space for assembly of freeze-dryer products licensed out by the Group are expected to be completed by the end of 2019.

Clean Room and Automation and Monitoring System

During the Year, Austar's clean room engineering business covers animal laboratory research laboratories, medical device facilities, OSD workshops and soft capsule workshops. In 2019, such business will be developed to include biologics facilities.

The Group is establishing project execution partnership with high-quality sub-contractors in strategic emerging countries to ensure the quality of the clean room construction business and enhance its international visibility. Our automation business team has been aggressively developing its services to support customers for the construction of smart factories in the pharmaceutical industry to help customers to achieve operational excellence. In 2019, the Group plans to launch LEAN-based manufacturing digitalisation, and it is believed that Austar will be a unique company to offer such services to pharmaceutical companies. Process Automation, Utility Automation and Manufacturing Information System are the basic pre-requisites for smart factory or digitalisation. The Group is strong at these system engineering knowledge and experience.

Pharmaceutical facility digitalisation is encouraged by the authorities to support more data acquisition for compliance inspection. The Group's customers have strong intention to utilise facility digitalisation technology to upgrade their operations, quality, compliance and profitability, meanwhile incentive schemes for such CAPEX investment have been devised by local governments in China. Our pharmaceutical automation engineering team has been continuously developing various software to enhance our competitiveness.

The Clean Room and Automation and Monitoring System business segment's process automation team has developed a fully automatic controlled process equipment for API synthesis equipment which has been launched and sold to the market; such equipment is designed for:

1. Critical process parameters analysis — through key process parameters analysis in scale-up process, to accurately proceed parameter space design. online record analysis, to avoid deviation.

2. Risk assessment — for research on risk of scale up process, and to achieve technology transfer.

3. Formulation building — through comparative analysis of the formulation, and gold batch screening, to ensure the transfer of the process formulation from the R&D phase to commercial production.

Powder and Solid System

In 2018, the Powder and Solid System business segment is still focusing on highly toxic or highly potent powder/solids projects. It has gained the market recognition for its technical competence. It is now an important integrated solution provider for oncology and hormone process equipment and system in the PRC. It has offered its first continuous manufacturing equipment and process production technology to a customer in 2018.

The Group's self-developed AUSmill brand particle-sizing equipment has gradually gained market recognition; its unique mechanical design has a prominent performance in handling materials with high hardness and has successfully solved difficult technical problems.

The success of the Powder and Solid System business segment is heavily dependent on its knowledge-set of containment application technology, material handling technology and formulation process system engineering and supported by fundamental knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering.

GMP Compliance Service

The Group's conventional GMP Compliance Service has been further extending to other GXP services, like Good Clinical Practice (GCP) data integrity consulting services to cover more sectors over the whole drug product life cycle. The Group will continue to promote services like LEAN Production, ICH Q10 Quality Management Systems, and Quality by Design, and it is believed that such opportunities will grow significantly as a result of the tougher policies as issued by the drug authorities. The GMP Compliance Service business segment will continue to explore the service scope contents of the ASTM E2500 (Standard Guide for Specification, Design, and Verification of Pharmaceutical and Biopharmaceutical Manufacturing Systems and Equipment) as Good Engineering Practice/Commissioning & Qualification consulting service model.

The GMP Compliance Service business segment has been taking action to:—

1. undertake the different compliance requirements at different stages of the drug life cycle, and further expanding the compliance service of "Drug Research Quality Management" and "Clinical Sample Production Workshop Quality System";

2. acquire high-end foreign consultants and continue to expand the market share of high-end market by combining the Group's Technical Advisory Committee and global technical resources under a knowledge platform;

3. continue to expand to the biological products sector such as PD-1 antibody, CAR-T cell therapy, and other popular biopharmaceuticals; and

4. support customers to cope with the challenges imposed by the recently released Europe GMP Annex I.

Life Science Consumables

Having an integrated solution for contamination control is the key factor in our further success in our revised product line of Washing, Disinfection and Sterilization. Compliance with the current Europe GMP rules can be properly met only with the competence to support customers to cope with their contamination control strategies as a whole. The Group's Life Science Consumables business segment is able to offer a complete solution of Washing, Disinfection and Sterilization by combining components, consumables, devices, equipment, system, cleaning and disinfecting services and validation services. This unique competence knowledge-set is believed to offer a strong competitive edge not only in the life science industries but also in other industrial sectors requiring hygienic or sterile working environment.

One of the key success factors of the Group's Life Science Consumables business segment is due to its successful business development process and practices. A momentum of product development and strong revenue growth drive have been continuously bringing about to the Group new life science-related products and services to support the pipeline, which include laboratory packages, biosafety, animal vaccines, laboratory instruments, medical devices, etc. The Group's Pharm Lab IT product line which was introduced last year has led the Group to further enter the pharmaceutical research sector and quality assurance/quality control laboratory sector, which in turn it is believed that it will help our other product lines to enter such sectors.

Strengthen research and development, product design and development capabilities

The corporate office of the Group has adopted a new function to harmonise and coordinate the cross-business segment R&D on the group R&D technical execution platform. Online data monitoring was developed in the integrated control system for the online process analytical technology (PAT) particle size monitoring of the wet granulating line. The wet granulator and fluid bed with 5kg exchangeable container had been developed, designed and manufactured. Sterile isolators for powder filler and single-use liquid filling machine for biologics application are being under development.

With respect to the loading system of 15 to 25kg packaging bags in API, food, health care products, and fine chemical industries, a fully automatic debagging system has been developed to meeting the requirements in bulk operation, contained operation, smart operation and traceability application. A new type of powder feeding system has been developed to solve the problems of powder/solids layering and breakage of particle materials during the high-fall materials delivery process; at the same time, it can avoid the static generation during the rapid fall of the materials and consequently avoid the dust explosion risk.

The soft capsule product and process development laboratory in partnership with Pharmagel Technology S.r.l. which was completed in 2017 is ready to receive customer product tests. A new laboratory for freeze-dryer process development in partnership with a German university expert, with the aim to support customers on freeze-drying process development. It is our aim to differentiate from the competitors by provision of advanced process technology services in addition to hardware technical advantages.

Expand by strategic acquisition of business and/or companies

The Group is continuing to explore opportunities in acquiring related facility in Europe through joint venture with strategic partners. Such initiative may help both our Liquid and Bioprocess System business segment to improve the market access to Europe and provide a manufacturing and factory acceptance test option for customers in the region's vicinity. The Group will continue its efforts in identifying potential acquisition targets by using our target screening principles of leveraging technological and market territory opportunities.

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 RMB816.6 million, representing an increase of approximately 49.3% over 2017, primarily attributable to the increase in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Life Science Consumables, Powder and Solid System, and GMP Compliance Service and which was slightly offset by the decrease in revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the years ended 31 December 2018 and 2017, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2018		2017		Change
Revenue by business segment	***RMB'000***	*%*	*RMB'000*	*%*	*%*
Liquid and Bioprocess System	**320,841**	**39.3%**	167,711	30.6%	91.3%
Clean Room and Automation Control and Monitoring System	**164,712**	**20.2%**	128,034	23.4%	28.6%
Powder and Solid System	**91,352**	**11.2%**	57,182	10.5%	59.8%
GMP Compliance Service	**36,880**	**4.5%**	25,458	4.7%	44.9%
Life Science Consumables	**187,174**	**22.9%**	151,026	27.6%	23.9%
Distribution and Agency of Pharmaceutical Equipment	**15,626**	**1.9%**	17,522	3.2%	(10.8%)
Total	**816,585**	**100.0%**	546,933	100.0%	49.3%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased significantly by approximately RMB153.1 million or 91.3% from approximately RMB167.7 million for the year ended 31 December 2017 to approximately RMB320.8 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2017 and the increase in the order-in-take in the business segment of Liquid and Bioprocess System for the Year, which part of amount were recognised as revenue, and improved project execution efficiency with quality control.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB36.7 million or 28.6% from approximately RMB128.0 million for the year ended 31 December 2017 to approximately RMB164.7 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2017 and the increase in the order-in-take in the business segment of Clean Room and Automation Control and Monitoring System for the Year, parts of which were recognised as revenue.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System had a significant increase by approximately RMB34.2 million or 59.8% from approximately RMB57.2 million for the year ended 31 December 2017 to approximately RMB91.4 million for the Year. The increase was primarily resulted from improvement in strength enhancement in total-solution service in the OSD field after the establishment of a new OSD product line, and the substantially increased amount of order-in-take in the business segment of Powder and Solid System for the Year, which part of amount were recognised as revenue.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB11.4 million or 44.9% from approximately RMB25.5 million for the year ended 31 December 2017 to approximately RMB36.9 million for the Year. The increase was mainly attributable to the improved project execution efficiency.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB36.1 million or 23.9% from approximately RMB151.0 million for the year ended 31 December 2017 to approximately RMB187.2 million for the Year, which was primarily attributable to (i) the competence by offering a complete solution of Washing, Disinfection and Sterilization; and (ii) the launch of more diversified life science consumables and services with latest technology, including the new Pharm Lab IT product line.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased slightly by approximately RMB1.9 million or 10.8% from approximately RMB17.5 million for the year ended 31 December 2017 to approximately RMB15.6 million for the Year, which was due to the decrease in the amount of backlog in the business segment of Distribution and Agency of Pharmaceutical Equipment as at 31 December 2017. The Group will continue to explore and distribute the various types of high-end pharmaceutical equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years ended 31 December 2018 and 2017:

	For the year ended 31 December				
	2018		2017		Change
Revenue	***RMB'000***	***%***	*RMB'000*	*%*	*%*
Mainland China	**766,057**	**93.8%**	481,844	88.1%	59.0%
Other locations	**50,528**	**6.2%**	65,089	11.9%	(22.4%)
Total	**816,585**	**100.0%**	546,933	100.0%	49.3%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 93.8% of the total revenue for the Year (2017: approximately 88.1%).

Cost of sales

The Group's cost of sales increased by approximately RMB186.8 million or 43.9% from approximately RMB425.4 million for the year ended 31 December 2017 to approximately RMB612.2 million for the Year. Such increase was mainly in line with the increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB82.9 million or 68.2% from approximately RMB121.5 million for the year ended 31 December 2017 to approximately RMB204.4 million for the Year. The gross profit margin increased from approximately 22.2% for the year ended 31 December 2017 to approximately 25.0% for the Year, which was attributable to the increase in gross profit margin from the business segments of Liquid and Bioprocess System, Powder and Solid System, GMP Compliance Service, Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.

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

	For the year ended 31 December					
	2018			2017		
Gross profit/(loss) margin by business segment	***RMB'000***	***%***	**Gross profit margin** ***%***	*RMB'000*	*%*	Gross profit/ (loss) margin *%*
Liquid and Bioprocess System	**40,571**	**19.8%**	**12.6%**	(3,097)	(2.5%)	(1.8%)
Clean Room and Automation Control and Monitoring System	**35,723**	**17.5%**	**21.7%**	30,736	25.3%	24.0%
Powder and Solid System	**29,558**	**14.5%**	**32.4%**	17,395	14.3%	30.4%
GMP Compliance Service	**18,932**	**9.3%**	**51.3%**	12,647	10.3%	49.7%
Life Science Consumables	**73,982**	**36.2%**	**39.5%**	58,285	48.0%	38.6%
Distribution and Agency of Pharmaceutical Equipment	**5,628**	**2.7%**	**36.0%**	5,566	4.6%	31.8%
Total	**204,394**	**100.0%**	**25.0%**	121,532	100.0%	22.2%

Notes:

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

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

Liquid and Bioprocess System

The Group recorded a gross profit from the business segment of Liquid and Bioprocess System of approximately RMB40.6 million for the Year as opposed to a gross loss of approximately RMB3.1 million for the year ended 31 December 2017. The gross profit margin from the business segment of Liquid and Bioprocess System was approximately 12.6% for the Year as compared to approximately negative 1.8% for year ended 31 December 2017, which was mainly attributable to the improved project execution management and cost control measures brought by the Group's engineering and automation execution platform.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB5.0 million or 16.2% from approximately RMB30.7 million for the year ended 31 December 2017 to approximately RMB35.7 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 24.0% for the year ended 31 December 2017 to approximately 21.7% for the Year, which was primarily due to the keen market competition in the product line of clean room and the Group undertook several projects with lower gross profit margin compared to the year 2017. The Group will continuously develop various software and plan to launch LEAN-based manufacturing digitalisation, which will upgrade the clients' operations, quality, compliance and cost control management.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB12.2 million or 69.9% from approximately RMB17.4 million for the year ended 31 December 2017 to approximately RMB29.6 million for the Year. The gross profit margin from the business segment of Powder and Solid System increased from approximately 30.4% for the year ended 31 December 2017 to approximately 32.4% for the Year, mainly attributable to the continual improvement in overall project control in the OSD product line after its establishment in 2015.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB6.3 million or 49.7% from approximately RMB12.6 million for the year ended 31 December 2017 to approximately RMB18.9 million for the Year. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 49.7% for the year ended 31 December 2017 to approximately 51.3% for the Year, which was mainly attributable to the maturity of the Group's technical and proficient management in cost control in this business segment.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB15.7 million or 26.9% from approximately RMB58.3 million for the year ended 31 December 2017 to approximately RMB74.0 million for the Year. The gross profit margin from the business segment of Life Science Consumables increased from approximately 38.6% for the year ended 31 December 2017 to approximately 39.5% for the Year, which was mainly attributable to the improved cost control.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB0.1 million or 1.1% from approximately RMB5.6 million for the year ended 31 December 2017 to approximately RMB5.6 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 31.8% for the year ended 31 December 2017 to approximately 36.0% for the Year, which was mainly due to the increase in amount of technical service provided for pharmaceutical equipment which had higher gross profit margin.

Other income

Other income decreased by approximately RMB4.3 million or 57.7% to approximately RMB3.1 million for the Year from approximately RMB7.4 million for the year ended 31 December 2017, mainly due to the decrease in the subsidies granted by local government authorities of the PRC in the Year.

Other (losses)/gains – net

The Group recorded other losses of approximately RMB1.7 million for the Year as compared to other gains of approximately RMB1.0 million for the year ended 31 December 2017, mainly attributable to currency exchange losses arising from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB5.2 million or 5.1% to approximately RMB105.6 million for the Year from approximately RMB100.5 million for the year ended 31 December 2017. The increase was primarily due to the increase in the staff costs and travel expenses.

Administrative expenses

Administrative expenses increased by approximately RMB6.5 million or 9.2% to approximately RMB77.5 million for the Year from approximately RMB70.9 million for the year ended 31 December 2017. The increase was primarily due to the increase in the staff costs by a total amount of approximately RMB9.2 million, and partially offset by the decrease in impairment of inventories by a total amount of approximately RMB2.0 million.

Research and development expenses

As at 31 December 2018, the Group had 41 research and development personnel which accounted for approximately 3.6% 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 RMB4.2 million or 16.3% to approximately RMB30.3 million for the Year, compared to approximately RMB26.1 million for the year ended 31 December 2017, mainly due to the increase of staff costs and materials utilised in more research projects. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Net finance income decreased from approximately RMB3.9 million for the year ended 31 December 2017 to approximately RMB3.4 million for the Year, which was mainly due to the currency exchange losses of approximately RMB0.2 million arising from retranslation of foreign currency cash and cash equivalents balances and pledged bank deposits for the Year, as compared to the currency exchange gains of approximately RMB0.8 million for the year ended 31 December 2017, but partially offset by the increase of interest income.

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

The Group's share of net profit of investments accounted for using equity method increased by approximately RMB6.5 million, from approximately RMB5.2 million for the year ended 31 December 2017 to approximately RMB11.7 million for the Year, primarily attributable to the increase in profit contribution from the Group's investments in two joint ventures, PALL-AUSTAR JV, STERIS-AUSTAR JV and an associate, ROTA, by approximately RMB0.9 million, RMB2.3 million and RMB3.3 million respectively.

Profit/(loss) before income tax

The Group recorded profit before income tax of approximately RMB3.5 million for the Year as opposed to a loss before income tax of approximately RMB58.4 million for the year ended 31 December 2017, which was primarily due to the factors as described above in this section.

Income tax (expense)/credit

The Group recorded an income tax expense of approximately RMB3.4 million for the Year as compared to an income tax credit of approximately RMB4.2 million for the year ended 31 December 2017, which was mainly due to the decrease of recognition of deferred income tax by approximately RMB6.3 million and the increase of current income tax expense by approximately RMB1.3 million.

Profit/(loss) for the year

The Group recorded a profit of approximately RMB0.1 million for the Year as compared to a loss of approximately RMB54.2 million for the year ended 31 December 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
Net cash used in operating activities	**(77,598)**	(6,171)
Net cash (used in)/generated from investing activities	**(39,495)**	27,505
Net cash generated from financing activities	**4,440**	834
Net (decrease)/increase in cash and cash equivalents	**(112,653)**	22,168

For the Year, the Group had net cash used in operating activities of approximately RMB77.6 million mainly due to:

i. the increase in trade and notes receivables of approximately RMB76.2 million, inventories of approximately RMB54.8 million and prepayments and other receivables of approximately RMB19.8 million;

ii. the increase in pledged bank deposits of approximately RMB88.9 million;

iii. the increase in contract assets and other assets of approximately RMB11.1 million as compared to amounts due from customers for contract work as at 31 December 2017;

iv. the increase in contract liabilities of approximately RMB121.2 million as compared to amounts due to customers for contract work as at 31 December 2017; and

v. the increase in trade and other payables of approximately RMB58.1 million.

For the Year, the Group had net cash used in investing activities of approximately RMB39.5 million, which was mainly attributable to:

i. purchase of land use right of approximately RMB32.2 million;

ii. purchase of property, plant, equipment and intangible assets of approximately RMB9.0 million which consisted of machinery, equipment and tools purchased for various business segments; and

iii. dividend received from joint venture of approximately RMB1.7 million.

For the Year, the Group had net cash generated from financing activities of approximately RMB4.4 million mainly as a result of net proceeds from borrowings of approximately RMB25.9 million, but partially offset by repayments of borrowings of RMB20.0 million and interest paid of approximately RMB1.4 million.

As at 31 December 2018 and 31 December 2017, the Group had cash and cash equivalents of approximately RMB196.5 million and RMB309.3 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB96.8 million and RMB7.9 million respectively.

Net current assets

The Group's net current assets as at 31 December 2018 had decreased by approximately RMB47.4 million, from approximately RMB363.3 million as at 31 December 2017 to approximately RMB315.9 million as at 31 December 2018.

As at 31 December 2018, the Group's total current assets amounted to approximately RMB892.9 million, which was an increase of approximately RMB137.9 million as compared with approximately RMB755.0 million as at 31 December 2017. The increase was primarily attributable to:

i. the increase in trade and notes receivables of approximately RMB76.2 million, inventories of approximately RMB54.8 million, prepayment and other receivables of approximately RMB19.8 million , and contract assets of approximately RMB11.1 million as compared to amounts due from customers for contract work, which was mainly attributable to the fast business expansion during the Year; and

ii. the decrease in cash and cash equivalents of approximately RMB112.9 million during the Year, but such decrease was partially offset by the increase in pledged bank deposits of approximately RMB88.9 million.

As at 31 December 2018, the Group's total current liabilities amounted to approximately RMB576.9 million, which was an increase of approximately RMB185.3 million as compared with approximately RMB391.7 million as at 31 December 2017. The increase was primarily due to the increase in contract liabilities in the amount of approximately RMB121.2 million as compared to amounts due to customers for contract work, and trade and other payables in the amount of approximately RMB58.1 million.

Borrowings and gearing ratio

As at 31 December 2018, the total interest-bearing borrowings amounted to approximately RMB20.0 million, which is the same amount as at 31 December 2017, composed of secured short-term bank borrowing with the amount of RMB5 million and RMB15 million bearing interest rates of 4.35% and 4.79% per annum respectively (31 December 2017: 4.35% Secured; 4.79% Guaranteed). The short-term borrowings also include notes discounted with recourse of approximately RMB5.9 million.

The Group's gearing ratio is approximately 5.4% as at 31 December 2018 (31 December 2017: 4.2%). The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2018, in addition to pledged bank deposits of approximately RMB96.8 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB7.1 million and approximately RMB5.5 million respectively (31 December 2017: approximately RMB7.8 million and approximately RMB5.7 million respectively) which are pledged as security for short-term bank borrowings with carrying amount of approximately RMB20.0 million (31 December 2017: approximately RMB5.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

HUMAN RESOURCES

As at 31 December 2018, the Group had 1,138 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 182 employees as compared to the number of employees as at 31 December 2017. The employee costs (including the Directors' remuneration) were approximately RMB162.8 million for the Year, which was an increase of approximately 16.9% as compared with approximately RMB139.3 million for the year ended 31 December 2017.

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

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

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

CAPITAL COMMITMENT

Capital expenditure of property, plant and equipment and intangible assets which have been contracted for but not yet incurred as of 31 December 2018 amounted to approximately RMB2.2 million.

FOREIGN EXCHANGE RISK

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

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

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

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

The Company has, and will continue to utilise the Net Proceeds for the purposes consistent with the section heeded "Future plans and use of proceeds" as set out in the prospectus of the Company dated 28 October 2014 ("**Prospectus**"). As at 31 December 2018, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	Proposed percentage of utilisation	Proposed utilisation amount		Utilised amount as at 31 December 2018		Unutilised amount as at 31 December 2018	
		HK$ in million	*RMB in million*	*HK$ in million*	*RMB in million*	*HK$ in million*	*RMB in million*
Establishment of the Shijiazhuang R&D and Production Centre	39.6%	163.1	126.7	55.7	32.6	107.4	94.1
Development of the Songjiang Production Centre	14.2%	58.4	45.4	–	–	58.4	45.4
Expansion of sales and marketing network	6.8%	28.0	21.8	19.8	14.6	8.2	7.2
Research and development activities	9.5%	39.1	30.4	39.0	30.3	0.1	0.1
Potential acquisition of interests in companies possessing critical product technologies in the pharmaceutical equipment, process system and service market	20%	82.4	64.0	29.9	18.0	52.5	46.0
Working capital and other general corporate purposes	9.9%	40.8	31.7	40.8	31.7	–	–
Total		**411.8**	**320.0**	**185.2**	**127.2**	**226.6**	**192.8**

The unutilised Net Proceeds of approximately HK$226.6 million has been deposited into the banks.

On 18 September 2018, the Group by a successful bid won the public tender of the land use right of a piece of state-owned land situated in the Shijiazhuang Hi-Tech Industrial Development Zone, Shijiazhuang, Hebei Province, PRC with a site area of 39,166.48 square metres at a bidding price of RMB29.7 million to be used for the construction of the Shijiazhuang R&D and Production Centre. The total purchase price for the land use right of such land, including the relevant fees and applicable tax, is estimated to be approximately RMB49.0 million and the Group will fund the purchase price by its internal resources and from the Net Proceeds allocated to the establishment of the Shijiazhuang R&D and Production Centre as set out in the section headed "Future plans and use of proceeds" in the Prospectus.

EVENT AFTER THE YEAR

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2018 and up to the date of this announcement.

FINAL DIVIDEND

The Directors do not recommend the payment of any dividend for the Year (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Monday, 27 May 2019 ("**2019 AGM**"), the register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, all transfer of Shares accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Tuesday, 21 May 2019.

CORPORATE GOVERNANCE PRACTICE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders of the Company ("**Shareholders**") as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code ("**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules.

Save for the deviation from code provision A.2.1 of the Corporate Governance Code 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 committees of the Board (primarily comprising independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**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 Board established the audit committee ("**Audit Committee**") on 21 October 2014 which comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one non-executive Director, namely, Madam Ji Lingling. Mr. Cheung Lap Kei is the chairman of the Audit Committee. None of them is a member of the former or existing auditors of the Company. Details of the terms of reference of the Audit Committee are set out on the Company's website and the website of the Stock Exchange.

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

The Audit Committee has reviewed the consolidated financial statements of the Company for the Year.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.austar.com.hk). The annual report of the Company for the Year containing all the information required by the Listing Rules will be despatched to the Shareholders 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 its 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, 28 March 2019

As at the date of this announcement, the executive Directors are Mr. Ho Kwok Keung, Mars, Mr. Ho Kin Hung, Mr. Chen Yuewu 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. Leung Oi Kin.