

AUSTAR
奥星

2023
ANNUAL REPORT



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

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

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CORPORATE INFORMATION

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

6118

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

RISK MANAGEMENT COMMITTEE

Madam Zhou Ning (Chairlady)
Mr. Chen Yuewu
Madam Ji Lingling

COMPANY SECRETARY

Madam Mak Yuk Kiu

AUTHORISED REPRESENTATIVES

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Deutsche Bank AG

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

Rooms 2010-2013
20th Floor, No.1018
Changning Road
Changning District
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISORS AS TO HONG KONG LAWS

LCH Lawyers LLP
Room 702, 7/F.
Admiralty Centre Tower One
18 Harcourt Road, Admiralty
Hong Kong

AUDITOR

Moore CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditor
801-806 Silvercord, Tower 1
30 Canton Road, Tsim Sha Tsui
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

HONG KONG COMPANY WEBSITE

www.austar.com.hk

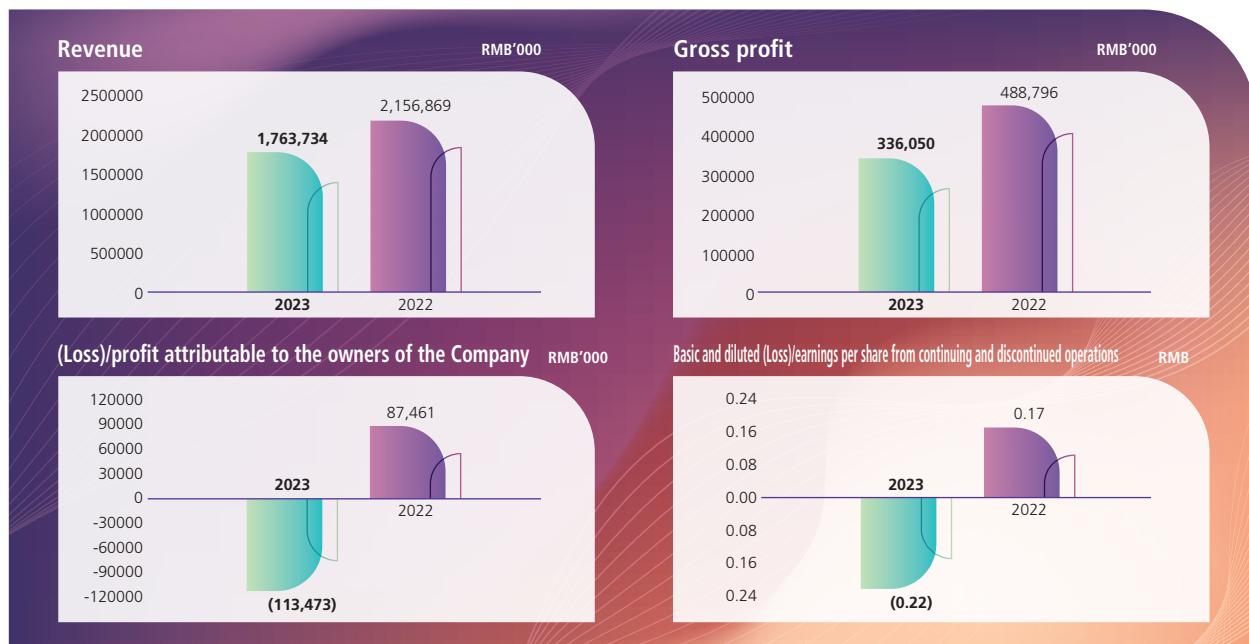
FINANCIAL HIGHLIGHTS

For the year ended 31 December			
	2023 RMB'000	2022 RMB'000 (Restated)	Change
Key financials on Consolidated Statement of Profit or Loss			
Revenue	1,763,734	2,156,869	-18.2%
Gross profit	336,050	488,796	-31.2%
Gross profit margin	19.1%	22.7%	
(Loss)/profit attributable to the owners of the Company from continuing and discontinued operations	(113,473)	87,461	
Basic and diluted (loss)/earnings per share from continuing and discontinued operations (RMB) (Note)	(0.22)	0.17	
Basic and diluted (loss)/earnings per share from continuing operations (RMB) (Note)	(0.06)	0.20	
 As at 31 December 2023			
		As at 31 December 2022	Change
	RMB'000	RMB'000	

Key financials on Consolidated Statement of Financial Position

Total assets	2,158,972	2,388,763	-9.6%
Net assets	775,473	883,581	-12.2%
Gearing ratio	39.2%	27.8%	

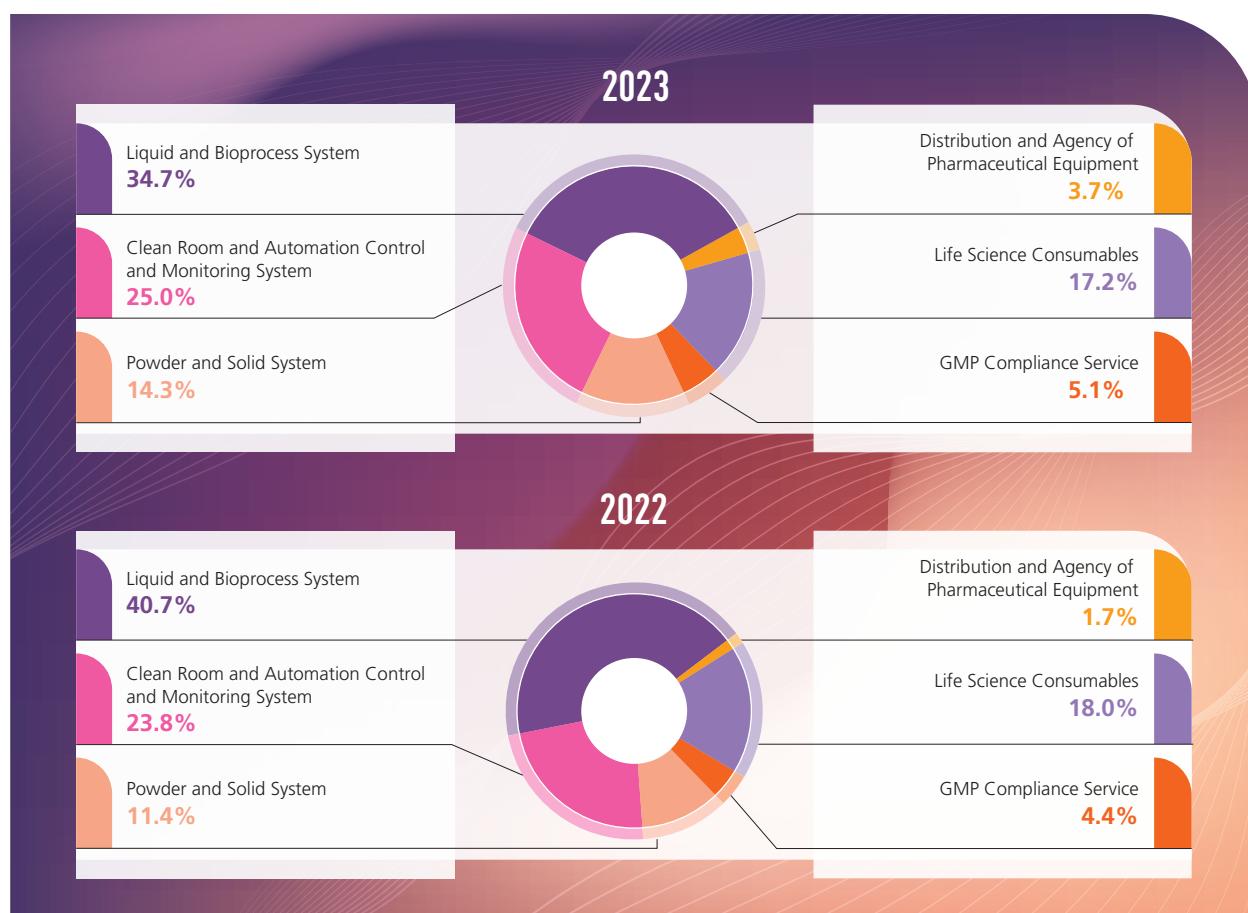
Note: The calculation of (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company for each of the years ended 31 December 2023 and 2022 and the weighted average number of shares during that year. The Company had no dilutive ordinary shares for each of the years ended 31 December 2023 and 2022.



FINANCIAL HIGHLIGHTS

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000 (Restated)	%
Liquid and Bioprocess System	611,292	34.7%	878,566	40.7%
Clean Room and Automation Control and Monitoring System	441,209	25.0%	514,070	23.8%
Powder and Solid System	251,794	14.3%	245,795	11.4%
GMP Compliance Service	90,124	5.1%	94,349	4.4%
Life Science Consumables	303,393	17.2%	388,264	18.0%
Distribution and Agency of Pharmaceutical Equipment	65,922	3.7%	35,825	1.7%
Total	1,763,734	100.0%	2,156,869	100.0%



OUR PATH OF GROWTH

2003

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

2006

AUSTAR formed a joint venture with STERIS Corporation

2008

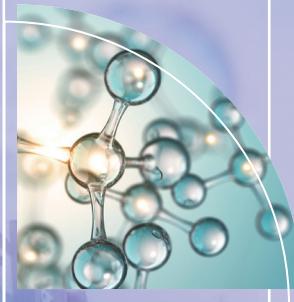
AUSTAR commenced its Liquid and Bioprocess System business

2012

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

2014

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



2004

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

2007

AUSTAR formed a joint venture with ATMI Packaging N.V. (now known as PALL Life Sciences Belgium BV)

2011

AUSTAR was certified as Siemens AG Solution Partner

2013

AUSTAR was certified as Siemens Gold Solution Partner
AUSTAR assisted Chengdu Institute of Biological Products Co. Ltd to pass WHO pre-qualification of Japanese encephalitis vaccine

2015

AUSTAR signed first contract of bioprocess configuration system for human vaccine in the PRC
AUSTAR's self-developed and produced oral solid dosage granulation system and freeze-drying system including isolator, vial loading and unloading system and freeze-dryer have been launched and displayed at 2015 Autumn CIPM



OUR PATH OF GROWTH

2016

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

2018

The first ROTA filling machine and AUSTAR's freeze-drying machine integrated production line was exhibited at the Achema exhibition in Germany
AUSTAR signed the first turnkey project with a pharmaceutical engineering company in Algeria, Africa

2020

A subsidiary in UK was established in March 2020
New AUSTAR Logo was launched with branding activities in April 2020
Tianjin University established an Industry-University-Research Collaboration Base with AUSTAR
Endress+Hauser signed a strategic partnership agreement with AUSTAR at Shanghai

2022

AUSTAR acquired the technology and ancillary business in sterile liquid and powder filling line to enhance technology in customized sterile filling solutions for liquid and powder in February 2022
AUSTAR acquired shareholding interests in a company specializing in complete superb solutions for the preparation in nanomedicine, inhalation in July 2022
AUSTAR successfully promoted the digital transformation of the production lines of several leading domestic pharmaceutical enterprises of production of 10 billion tablets in 2022

2017

AUSTAR formed its first SMEPAC testing technology R&D laboratory for powder containment facilities in China
AUSTAR signed first contract of laboratory equipment packaged services in Ethiopia
AUSTAR signed first contract of VHP space sterilization service contract in food and beverage industries

2019

Europe holding company structure with European Team was established in August 2019
A subsidiary in India and two subsidiaries in Malaysia were established in 2019

2021

AUSTAR disposed of 60% interest in PALL-AUSTAR joint venture in March 2021
AUSTAR developed the own-brand BIOSYSTECH bioreactor in July 2021
AUSTAR won The Most Outstanding Partner of SIEMENS in 2021

2023

AUSTAR formally commenced operation of its new manufacturing centres in Shanghai and Shijiazhuang in the first half of 2023
AUSTAR successfully delivered OBiO Intelli-M construction project in October 2023
AUSTAR launched a new OSD continuous manufacturing R&D platform in October 2023
AUSTAR launched the REMOIS digital brand in November 2023

CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board ("Board") of directors ("Directors") of Austar Lifesciences Limited ("Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively as the "Group" or "AUSTAR") for the year ended 31 December 2023 ("Year").

The year 2023 is in some sense special in that I have not encountered such market and business challenges in my 38-year career in the life-sciences industry in China.

Lifting the Covid restrictions in the final weeks of the year 2022 initially gave excitement and hope across nearly all industrial sectors in the first quarter of 2023. Nonetheless, within our biopharmaceutical sector in general, a disappointment sentiment was evident with the fact that our clients' capital expenditure (CAPEX) projects began to slow down in the second quarter and further worsened in the third quarter due to a number of reasons. The impact of these developments on our order-in-take during the first half of the Year has been reported in our interim report. Our revenue and profit were not achieved according to the plans we had set. Another factor affecting our financial performance was the liquidation of a Joint venture in Germany, resulting in a significant profit loss. It is important to note that such one-off impact in 2023 would not have any further detrimental effect on our financial performance in 2024; however, such lesson-learnt experience is valuable to our senior management to improve the management maturity for our global expansion initiatives through exposure to challenges associated with managing European entities.

Since the last quarter of 2023, a phenomenon of client project status reactivation has been observed. This is supported by an increase in more project bidding, more pending project revamping, more new projects popping up and higher order-in-take volume as compared to the second and third quarters of 2023. While such recovery of project statuses shows a driving momentum, it will still require further observation for the next few quarters in 2024 to realize the real picture.

It is believed that the growth pattern of biopharmaceutical industry in China and globally is still valid in the upcoming years. However there has been a decline in CAPEX investment momentum in some biologics sectors, especially in the field of monoclonal antibody, due to lack of additional funding. Fortunately, AUSTAR has been engaging and creating technical competence and client contacts in various sectors, such as active pharmaceutical ingredients and its intermediate chemicals, animal health, medical devices, human vaccines, medical beauty, and cell & gene therapy in the life-sciences industries. Relatively, we have not been as affected so severely by the downturn of the innovative biologics sector when compared to some of our peers which were only dedicated to such sector.

The centralized procurement policy adopted by authorities in China several years ago has apparently extended its coverage to more drug products, in which the drug price pressure has definitely prompted drug manufacturers to further seeking operation cost-saving actions. The resulting severe price competition further causes all upstream vendors to be more efficient and cost-effective. Only those drug manufacturers and their upstream vendors who excel can survive. Vendors who are able to offer large-scale, flexible, energy-saving and labour cost effective digitalization solutions will win. I believe that AUSTAR is among one of those very few players in the market who possess these capabilities at present.

The tremendous success of the GLP-1 weight-loss peptides drug by Novo Nordisk, with some celebrities even publicizing its efficacy evidence, has created a lot of public awareness and enthusiasm for drug research of peptides and oligonucleotide drugs from our clients. It is expected that there would be a big wave of investment for research and manufacturing of peptides drugs in the coming years. AUSTAR is proud to be able to offer a complete process systems of peptides drug facilities, and we are in the process of acquiring some peptides projects from reputable clients. Oligonucleotide drugs is another category of therapies where attention and focus are being paid. The successful project execution of the recent completion of our clients' oligonucleotide drug facilities has been very encouraging.

CHAIRMAN'S STATEMENT

The business growth in terms of revenue and order-in-take from 2018 to 2022, with a compounded annual growth rate (CARG) of 28.5% and 20.5% respectively, was mainly attributed to the successful implementation of the AUSTAR Transformation Initiative, which was launched in 2018. Over the course of 5 years, such transformation efforts of process and system, talents and knowledge, and culture and values, have brought us to the establishment of a more resilient company with a mature operation-excellence business and support platform. These efforts had served as a safeguard for the challenging business year of 2023. Going forward, our corporate leadership is ready to initiate an enhanced version of the AUSTAR Transformation Initiative with revised objectives and reorganized competence elements, to revitalize our competence and agility against the tougher market conditions with a leaner organization for adapting to dynamic changes in the business environment.

Realizing the hard facts about the upcoming challenges and tremendous opportunities, our leadership has decided and launched a business segment restructuring scheme in the last quarter of 2023 by merging the existing 6 business segment into 3 business groups, with a clear objective of resources consolidation and business focus and adaption, to tackle the latest market trends and observed changes. Such improvement change is believed to be able to contribute to improved financial performance in the coming years.

Over the past 5 to 6 years, AUSTAR has been investing resources and efforts on new product and technology development by sacrificing some short-term profit margin, which have resulted in the creation of a strong pipeline of products and services under different phases from research and development to early phase of launch. This approach has laid a solid foundation to ensure strength in long-term growth to capture global and regional business and market opportunities in the life-sciences sectors. In the coming 2 to 3 years, we expect a gradual launch of a significant number of new products developed with our own intellectual property rights. This expansion can further enrich our existing sophisticated product portfolios in some specific technology applications and business units. Such results are attributed to the belief that sacrificing a short-term annual profit by investing in more talents and hardware for product development in a fast-growing and dynamic industry with more lucrative returns to capture the near future business opportunities, is economically justified for sound and foreseeable long-term financial performances. I believe that the Directors are in alignment with me with such belief. However, our Board must have the necessary courage to allow our investors to criticize, understand and eventually accept such a belief.

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

Ho Kwok Keung, Mars

Chairman

26 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Since the beginning of 2023, it is evident that the biopharmaceutical industry has experienced a slowdown in capital expenditure (CAPEX) investments, and biopharma manufacturers have exercised caution in investments in research and development (R&D) and commercialized investments. Some of the industry's leading companies have changed their direction to establishing a pipeline focusing on differentiation and competitiveness, and willing to invest even in long-term innovative technologies such as AI-driven drug discovery. However, instead of capital intensive in-house manufacturing facilities, these companies prefer Contract Manufacture Organization (CMO) outsourcing or building manufacturing facilities to accommodate multiple product portfolios such as monoclonal antibodies and vaccines.

The arrival of powerful new drugs for obesity has reshaped the pharmaceutical industry, transforming Eli Lilly and Novo Nordisk to become the sector's most valuable companies and pushing others, including drug researchers and manufacturers in China, scrambling to catch up. It is believed that such GLP-1 drug development or anti-obesity drug enthusiasm will continue for many years, leading to new waves of investment on research and manufacturing facilities.

Antibody-drug conjugate (ADC) is a growing class of biologics. Based on China's policy to support pharmaceutical enterprises and the increasing R&D in these enterprises, the China ADC technology platform and research pipeline have been rapidly recognized by global biotech enterprises. It is believed that ADC is another hot topic besides GLP-1 in 2023.

The continuous increase of new anti-tumor drugs, ADC drugs, nucleic acid drugs and polypeptide drugs provided support for the R&D and production of featured active pharmaceutical ingredients (API). The expansion of oral anti-tumor preparations and relevant Contract Development and Manufacturing Organization (CDMO) production capacities have created business opportunities in engineering technology system and solutions.

The rapid expansion of the medical beauty market and demand for the prevailing hyaluronic acid, recombinant collagen protein and botulinum toxin have also brought business opportunities in fermentation and sterile powder equipment and technologies.

Supported by national policies in China, and along with the continuous improvement of pharmaceutical process key technology and core equipment development and production, there has been a notable acceleration process in domestic substitution in China. Due to their advantages in cost performance, stable supply chain ability and effective after-sales-service, the domestic pharmaceutical service vendor companies from consumables to equipment are expected to have more growth potentials and gain more market share from the European and US vendors.

In terms of policies and regulations:

- Since September 2023, the Center for Drug Evaluation and the Center for Food and Drug Inspection of NMPA (National Medical Products Administration) have successively issued the "2022 Drug Evaluation Report", "China Investigational New Drug Application Annual Report (2022)", and "2022 Drug Inspection Work Report". Anti-tumor drugs are still the main focus, shown in the indication of drugs in IND and NDA.

MANAGEMENT DISCUSSION AND ANALYSIS

- In September 2023, NMPA submitted a formal application to PIC/S (Pharmaceutical Inspection Co-operation Scheme), and PIC/S confirmed its official applicant status in November, 2023. NMPA's participation in PIC/S will promote the progress of China's drug inspection system and standards, improve the drug inspection quality management system and the inspector team building, and enhance the modernization of drug supervision in China.
- The EU GMP Annex 1 Manufacture of Sterile Medicinal Products took effect in August 2023. The new regulation has established new requirements for the sterile products industry in terms of cleanroom cleaning and disinfection, as well as process system cleanliness and sterility assurance. Such revised regulations will drive pharmaceutical manufacturers to improve their equipment, facilities and processes not only in Europe but also in all countries following the WHO (World Health Organization) and PIC/S GMP guidelines.
- “Q13: Continuous Manufacturing of Drug Substances and Drug Products”, the guideline of International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use, will promote the realization of digitalization, informatization and validation, as well as quality management system of continuous manufacturing in the pharmaceutical industry.
- “The Announcement on Strengthening the Supervision and Management of Contract Manufacturing by Drug Marketing Authorization Holder” and “Guidelines for Site Inspection of Contract Manufacturing by Drug Marketing Authorization Holder” have provided clear requirements for Marketing Authorization Holders (MAH) on licensing management, quality management, regulatory inspection of contract manufacturing, indicating strengthening management on MAH.
- The NMPA GMP Annex Blood Products (exposure draft), which aims to implement the main responsibility of the blood product MAH for product quality and safety, will further promote the information management of blood product production and testing processes, and ensure the quality and safety of blood products.

BUSINESS REVIEW

For the Year, the Group recorded approximately RMB1,763.7 million in revenue, order-in-take has decreased by approximately 32.7% as compared to 2022 due to the reduction of number of projects and delay on project schedule caused by CAPEX investment slow down after recovery from the COVID-19 pandemic.

The profitability in 2023 has been negatively affected by the reduced order-in-take and shortfalls in some businesses in incubation and early maturity phases. It is believed that by improvement in those businesses with poor profitability performance through better leadership and governance, and strengthening the competence elements of profitable product lines by deploying more corporate-level resources, will both contribute to a stronger profit in the coming years.

The Group has been working on continuous upgrading of technical solutions. The API product line has developed an oligonucleotide technology turnkey service, which integrates the containment scheme, and meet both GMP and Environment, Health, and Safety (EHS) requirements. This represents a shift in our core competitiveness from original equipment Occupational Exposure Band (OEB) protection to systematic Containment Performance Target (CPT) protection, and we could now provide clients with overall containment concept and solutions instead of only equipment, and help clients to have a safer and more economical production workshop.

MANAGEMENT DISCUSSION AND ANALYSIS

The launch of the oral solid dosage (OSD) continuous manufacturing platform to the market has received industry attention. Such new manufacturing facility requires new technologies, equipment and system like formulation, continuous blending, material transfer technologies, process analytical technology (PAT), continuous granulation and drying, process technologies, sophisticated engineering integration and automation technologies. AUSTAR is one of the few companies in the world with all such fundamental knowledge and experience under one roof, and further investments in developing such technology will be done in partnership with academic institutions and strategy partners.

The Group has been undergoing a serious review on its business structure and product lines, with a focus on establishing a more synergized and efficient business model, and finding new technical solutions to offer the most cost-effective integrated solutions. This business restructuring effort will contribute to competence improvement and enable the Group to be more resilient under the increasingly competitive circumstances. The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life sciences process technology and applications as well as industry regulatory rules and practices, which would enable the Group to help clients to address issues in quality, compliance, and operation excellence.

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

ORDER-IN-TAKE FROM CONTINUING OPERATIONS

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

Order-in-take by business segment	For the year ended 31 December			Change	
	2023 RMB'000	%	2022 RMB'000	%	
Liquid and Bioprocess System	462,057	29.9%	712,301	31.1%	-35.1%
Clean Room and Automation					
Control and Monitoring System	469,719	30.4%	647,892	28.3%	-27.5%
Powder and Solid System	159,989	10.4%	328,414	14.3%	-51.3%
GMP Compliance Service	58,204	3.8%	108,255	4.7%	-46.2%
Life Science Consumables	321,061	20.8%	426,165	18.6%	-24.7%
Distribution and Agency of Pharmaceutical Equipment	71,776	4.7%	68,286	3.0%	5.1%
Total	1,542,806	100.0%	2,291,313	100.0%	-32.7%

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the total order-in-take from continuing operations amounted to approximately RMB1,542.8 million, representing a decrease of approximately RMB748.5 million or 32.7% from approximately RMB2,291.3 million for the year ended 31 December 2022 due to the reduction of number of projects and delay on project schedule caused by CAPEX investment slowdown after recovery from the COVID-19 pandemic.

Liquid and Bioprocess System

The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB462.1 million for the Year, showing a decrease of approximately RMB250.2 million or 35.1%, comparing to approximately RMB712.3 million for the year ended 31 December 2022. The overall demand of the market decreased after years of rapid development. It is expected that the industry will gradually show signs of steady recovery alongside the improvement of the overall economic environment and the stabilization of the market. At the same time, the filling line system and the freeze-dryer system have extended their coverage into chemical drugs, nutriceuticals, medical-beauty, and other related fields, as well as the biopharmaceutical field. Geographically, there is also expansion to other regions outside of the China market.

Clean Room and Automation Control and Monitoring System

The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System amounted to approximately RMB469.7 million for the Year, representing a decrease of approximately RMB178.2 million or 27.5% from approximately RMB647.9 million for the year ended 31 December 2022. The new construction and renovation in pharmaceutical industry slowed down in China. Due to shortage of customer funds and hesitations in investment decisions, the required time to secure an order intake has been prolonged. For 2024, the pharmaceutical automation engineering business is expected to grow, particularly in the factory construction of innovative drug projects. Besides, with the development of the market in the Yangtze River Delta, it has brought new business opportunities to facility design services.

Powder and Solid System

The order-in-take amount of the business segment of Powder and Solid System amounted to approximately RMB160.0 million for the Year, showing a decrease of approximately RMB168.4 million or 51.3% from approximately RMB328.4 million for the year ended 31 December 2022. During the Year, this business segment experienced challenges including investment slowdown, increased cost pressure, and significant decrease on number of larger projects. At the same time, pharmaceutical companies are also diversifying their procurement sources, so that the local equipment manufacturers, with improved technology and lower cost, benefited from more sales opportunities, where the market used to favour traditional European and American players. Internally, more cross-team cooperation projects are being launched with the aim to secure more strategic turn-key projects.

MANAGEMENT DISCUSSION AND ANALYSIS

GMP Compliance Service

The order-in-take amount of the business segment of GMP Compliance Service amounted to approximately RMB58.2 million for the Year, showing a decrease of approximately RMB50.0 million or 46.2% from approximately RMB108.2 million for the year ended 31 December 2022. During the Year, the GMP Compliance Service business was adversely affected by investment slowdown in the pharmaceutical industry and the delay of new construction and expansion projects. Besides, after the recovery of the COVID-19 pandemic, a certain number of contracts have been cancelled; in other cases, the contract size has been significantly reduced, including those for COVID-19 vaccine R&D and manufacturing companies.

At the same time, the inspections of domestic drug production sites by European and American drug regulatory agencies and international organizations such as the WHO are intensified with less restrictions on international travel. EU GMP Annex 1 Manufacture of Sterile Medicinal Products has taken into effect from August 2023. The demand for high-end compliance consulting services is expected to expand in the future. The Group is promoting the expansion of high-end compliance consulting business through on-site visits by experienced consultants to meet the needs of different customer groups. The Group is also implementing visits to customer based on analysis of collected MAH information to promote order-in-take.

Life Science Consumables

The order-in-take amount of the business segment of Life Science Consumables decreased by approximately RMB105.1 million or 24.7% from approximately RMB426.2 million for the year ended 31 December 2022 to approximately RMB321.1 million for the Year. The equipment and service orders of biopharmaceutical companies have decreased mainly due to investment slowdown in biopharmaceutical market, cost savings measures on the customers' side, and production capacity reduction of pharmaceutical companies. At the same time, driven by accelerated process on domestic substitution in China, demand for imported consumables has decreased. The Group is developing and promoting equipment and consumables with its own brand to secure more orders at more competitive price and with shorter delivery lead time.

Distribution and Agency of Pharmaceutical Equipment

The order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment had a slight increase by approximately RMB3.5 million or 5.1% from approximately RMB68.3 million for the year ended 31 December 2022 to approximately RMB71.8 million for the Year. The Group continues to promote comprehensive technological transformation services by upgrading renovation services based on "AUSTAR Technology Services" to help existing "old" factories meet the new GMP requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

BACKLOGS

Set out below is a breakdown of the Group's closing value of backlogs (VAT excluded) and the corresponding number of contracts by business segment as at 31 December 2023:

Backlogs by business segment	Number of contracts	As at 31 December 2023		
		%	RMB'000	%
Liquid and Bioprocess System	381	26.3%	327,260	32.3%
Clean Room and Automation Control and Monitoring System	399	27.5%	412,286	40.7%
Powder and Solid System	184	12.7%	95,587	9.4%
GMP Compliance Service	97	6.7%	72,159	7.1%
Distribution and Agency of Pharmaceutical Equipment	389	26.8%	106,550	10.5%
Total	1,450	100.0%	1,013,842	100.0%

PRODUCTION, EXECUTION AND ORGANIZATION

The facility of AUSTAR UK Limited ("AUSTAR UK"), a wholly-owned subsidiary of the Company, in Huddersfield, West Yorkshire, the United Kingdom, has successfully retained its ISO 9001 & 14001 certifications without any non-conformance for the third consecutive year. Furthermore, the team has also obtained accreditation from Alcumus SafeContractor, a market-leading health & safety accreditation system, helping contractors and organizations to become healthier, safer, and stronger whilst safeguarding AUSTAR's safety reputation.

Based on the AUSTAR Production System (APS) and two new production sites being put into operation, the three equipment manufacturing centres in Shanghai, Shijiazhuang and Nanjing have entered into a relatively mature stage of lean operation; continuous improvements have been made in terms of product quality, cost saving, and on-time delivery. These equipment manufacturing platform and sites are undergoing a restructuring process, so as to invite joint venture and licensing partners such as Noozle, STERIS-AUSTAR and C-True team to utilize the approximately 50,000 sq.m. facilities in total. The overall upgrading of manufacturing conditions will provide more space for new product research and manufacturing, and offer opportunities for improvement, including production process and quality management, digitalization tools enhancement, and key production process optimization. In terms of informatization, the new production sites have established a standardization and display of data information, largely improving the efficiency in data analysis. This manufacturing capacity improvement will allow the Group to increase its strength in equipment R&D of its own equipment products with its own intellectual property rights, eventually completing its mission of core equipment self-reliant to replace the previous role as core equipment agent. Such manufacturing space investment in 2023 is believed to be sufficient for at least 3 to 5 years.

MANAGEMENT DISCUSSION AND ANALYSIS

To improve the onsite operator working capability, the production team has introduced a “lean operation room” approach which integrates multi-functions such as training, stimulation, sand table, and practical operation. Going beyond purely theoretical knowledge, the transformation of learning method could provide more practical operation and help onsite operators to quickly improve their working skills.

A methodology in man-hours reduction has been established, and improvements have been made in the areas of technology, personnel and system. We believe this will help the production sites to make continuous progress in working-hour reduction and working efficiency improvement.

In 2023, besides adopting the Manufacturing Execution System (MES) as the main system, the manufacturing centres have also set up their own information management system, covering the management scope of factory daily operation, workshops and shifts. The information management system can provide data support for different management purposes, including but not limited to key indicators, business performance, risk warning, production status and inventory etc., to improve the overall productivity and optimize operational efficiency.

Based on AUSTAR’s digital platform and the interworking of self-developed software and international software platform, the Group’s Project Execution Centre (PEC) has realized the digital integrated management of project execution and achieved a seamless transition from conceptual design to project completion. Coping with the Group’s global expansion strategy and serving clients worldwide, the team has established a technical platform for R&D by introducing talents from the industry for more up-to-date technical solutions. The team formulates scientific and reasonable construction plans, coordinates resources, and strictly follows the safety standards and norms of the industry to ensure the safety and compliance of each project and timely delivery with high quality.

The PEC is committed to implementing the philosophy that project quality is based on good design engineering, and has successfully established a unified EPLAN database for the whole product line through human resources and technology experience accumulation and optimization of software design tools.

By integrating production process and user experience into customized, module program function solutions, this database can largely improve clients’ automation capability, and help improve their production efficiency and product quality.

Following customer focus and result orientation as the working principle, the PEC enables a full life-cycle operation and aims for continuous improvements to win customer satisfaction. In 2023, the PEC has executed more than 650 projects, covering a wide range of fields such as CDMO innovation and transformation platform for cell and gene therapy (CGT), intelligent platform for innovative biopharmaceuticals, OSD workshop, GMP filling workshop, etc., and has expanded our service areas by providing clients with full life-cycle services in new projects for radiopharmaceuticals, blood products, and medicinal products.

MANAGEMENT DISCUSSION AND ANALYSIS

SALES AND MARKETING

The Group's internal sales cooperation model is designed to encourage sales teams from different sectors and different product lines to support each other to offer a more relevant solution to our clients. This model is facilitated by a sophisticated business-intelligent information system of customer relations management to ensure our clients are properly taken care of and our sales teams are working cost-effectively.

In China, through years of sales talent and organization development, the Company's sales process is relatively mature, covering the area of biological and chemical medicine, medical device, animal health, Chinese medicine, cosmetics, nutria-pharmaceuticals etc. The China sales teams are focusing on the China market with more key account managers to support the business growth, and specific matter experts and technology application team are supporting territory sales for technical support and proposal preparation and presentation.

For global expansion, we have been building up the team gradually according to execution strategies, as in the last few years, European and Southeast Asia teams were recruited to directly take care of the related sales leads and enquiries, but due to the travel restrictions under the COVID-19 pandemic, the sales performance in other global regions was not satisfactory. Early 2023, a new leadership team was established to initiate some organization change by optimizing the existing team member and introducing some new members. From the sales order-in-take information, it appears that such organization change has a positive effect indicated by the drastic improvement in orders especially in India and South-East Asia. It is believed that the Group's revamped global sales team is able to gradually contribute a greater portion share of the sales order-in-take in the near future.

In 2023, brand promotion and marketing have made good progress, and the Group has successfully established and released three brands, namely Research and Manufacturing Operation Information Integrated System (REMOIIS), a platform integrating automation control and informatization capabilities to facilitate pharmaceutical companies to build and become world-class informatized research and manufacturing enterprises; C-True, a product brand focusing on visual inspection solutions; SCHEDIO-AUSTAR, a product brand focusing on jet mill technology. By the end of 2023, the Group already possesses a brand portfolio of 16 professional product and business brands.

In 2023, the Group had a good exposure with the participation and organization of 55 events worldwide, including 16 expos, 26 industry meetings, 11 self-organized online and offline seminars and 2 bio-medical Park workshops. We believe the diversified events held in different countries and regions could help us increase and strengthen the AUSTAR brand recognition in global and local markets. With the new manufacturing center put into operation, technology seminars with production site open day were proved to be a good way to show our overall capability in leading technology and production capability.

In order to support business development in Russia, the Resource Center of the Group website has added a Russian language version for brochure online reading and download. As of the end of 2023, there are about 200 brochures online for public sharing, and resulting in more than 94,000 online reading. We believe it is a good way to share product and technology information. Compared to hard copies, electronic copies could be updated timely and are more environmental friendly.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2023, a total of 330 news and articles being released via 16 social media accounts, which created over 750,000 times online reading, together with 102 promotion videos produced, the Group's social media achieved good performance. Order inquiries coming from social media and website channel are increasing, and we believe digital marketing is a good way based on its promptness and large scale influence.

Strategic improvements has been made on webinars. Instead of single topic sharing, series topic focusing on the 12 technology applications were released. As of the end of the Year, 40 webinars have been organized with an attendance of over 16,300 audience in online sharing, and all these online activities obtained positive feedback and created good business interactions.

RESEARCH AND DEVELOPMENT

As at 31 December 2023, the Group owns 418 patents. During the Year, the Group obtained 57 registered patents, and applications for 62 patents are currently in progress.

A testing laboratory for clean room panel was established in the new manufacturing centre, and the continuous optimization of clean room panel production process has improved the production efficiency and quality control of clean room panels and windows. High-quality clean room materials and professional clean engineering installation services have strengthened AUSTAR's competitiveness.

In response to the national carbon dioxide emissions peak and carbon neutrality policy, the Group has carried out a special research project in clean room air conditioning energy saving. By introducing international clean room dynamic energy-saving concept to carry out real operation simulation of clean room air conditioning energy saving, this will further enhance AUSTAR's technical capabilities in clean engineering.

In 2023, a pilot laboratory intelligent production platform project for biopharmaceuticals was completed by Zhejiang University and AUSTAR. This platform has connected an AI prediction model with R&D equipment, realized the recipe-based flexible automatic production, and reduced the number of laboratory operators. This platform could ensure data integrity, realize data analysis, and achieve continuous data model and production process optimization.

Through integrating AI energy-saving technology into software solutions for one of our clients, and after conducting a joint calculation and analysis, we could see a reduction of around 8% to 10% in public auxiliary system energy consumption after operation, which at the same time achieved the client's expectation of establishing a digital computer room and reducing human operation and maintenance costs, and met the needs of automatic control and intelligent energy-saving control strategy of utility and auxiliary systems.

A project of designing and manufacturing polypeptide synthesizers and high-pressure chromatography equipments was initiated, which aims to provide core equipment and technologies for polypeptide technical solutions, and enhance AUSTAR's market competitiveness in this field. These high-value core equipments in polypeptides and oligonucleotide drugs manufacturing processes can help AUSTAR to improve its offerings as a full turnkey project solution provider.

MANAGEMENT DISCUSSION AND ANALYSIS

A medium specification of automatic powder filling equipment of 100 – 1000g capacity was developed, which has filled a specification gap in the market, as the current common specification in the China market primarily focus on the 1-100g grade and kilogram grade range. The product was equipped with an advanced 6-axis robot, which can resist Vaporized hydrogen peroxide (VHP) sterilization.

The OSD business has completed the construction of an innovative process laboratory, which means that such business has attained preliminary OSD process trial test and scale up abilities. We have also obtained a license from SCHEDIO for the localization production of a pilot type jet mill, its FBDGC70 fluid bed for scale-up services was issued with explosive-proof ATEX certificate by TÜV Rhineland.

A continuous weighing and dispensing, continuous blending, continuous drying and automatic control systems was developed, and the ContiFlex10 flexible continuous manufacturing system has been launched; the system will promote the development of continuous manufacturing in China from the concept and planning stage to commercial stage of product selection and project implementation.

The successful launch of the laboratory freeze-dryer has led to a continuous increase of our product presence in the freeze-dryer market. There are more than 20 different sizes of freeze-dryers, from lab to pilot and commercial production scale, which could be applied to different stages from research to mass production.

With the continuously growing development and system integration capabilities, a Guideless Robotic Pushers (GRP) Automatic Loading and Unloading System (ALUS) of freeze-dryer with innovative design was introduced to the market, the cart of which is fully electrical controlled with no risk of pneumatic and hydraulic leaks, and the adoption of wireless communication guarantees product compliance to GMP requirements. We believe it will be widely adopted by high-end pharmaceutical clients in the future.

The launch of the medium-speed 100% in-process control (IPC) filling machine received positive feedback in 2023. This product could combine with an isolator, with simplified structure and compact design, making it easy to operate and enabling 100% online weighing, meeting clients' requirements to a greater extent.

The R&D of the self-developed cleaning and disinfecting robot was completed and officially launched. This product could solve the difficulties of cleaning and disinfection needs in core areas of sterile preparation, and avoid the irreversible risks of sterile environment contamination and sterile drug quality problems caused by improper human operation. Customized service on technical requirements and solutions for clients could be made based on their needs.

Following the increasing demand for freeze-thaw technology of biologics drug substance, AUSTAR has been providing imported single use systems (SUS) equipment capable of handling large volume of drug substance in the field of antibodies, vaccines, mRNA, and gene therapy, helping clients to expand the range of process options, improve production efficiency, and reduce project costs.

Lipid nanoparticles (LNPs), which are widely used for the delivery of small molecule and nucleic acid drugs, attracted attention due to its being used as a COVID-19 mRNA vaccine delivery platform. In 2023, AUSTAR completed its self-developed LNP preparation system with the characteristics of high throughput, automation, and compliance with GMP regulations, which could provide better process solutions for nucleic acid drugs clients worldwide.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Starting from 2024, the Group will consolidate its six business segments into three business segment groups: (1) Integrated Process and Packaging Systems, which basically combines the original business segments of Liquid and Bioprocess System and Powder and Solid System; (2) Consulting, Digitalization and Construction, which consolidates all the services and engineering construction business into one business segment, from the original business segments of Clean Room and Automation Control and Monitoring System, GMP Compliance Service, and a majority of Distribution and Agency of Pharmaceutical Equipment; and (3) Life Science Equipment and Consumables, in which the business segment of Life Science Consumables will remain as it is but renamed as such.

Integrated Process and Packaging Systems

The business segment of Integrated Process and Packaging Systems is focused on the business and technology direction of advanced manufacturing and process in life sciences industry. Its establishment has been formed naturally in response to the growing urge within the pharmaceutical industry to have a turnkey supplier which has technical and knowledge capacity combinations for both liquid and solid systems, chemical synthesis and biological process, sterility, and non-sterility, from milling to freeze-drying, to tackle some complex formulation and complete API requirements. An obvious benefit of such competence is its ability to deliver turnkey solutions of polypeptides and oligonucleotide drugs.

Continuous manufacturing (CM) has become critically significant in replacing the conventional batch manufacturing methods and offering various technical and economic benefits, especially in terms of CAPEX and operational costs. Recognizing such importance, our chief executive officer Mr. Ho Kwok Keung Mars, led our expert team in supporting the translation and publication of the Chinese edition of the book titled "How to design and implement Powder-to-tablet Continuous Manufacturing Systems". In 2023, the Group organized the first product trial and demo of one OSD CM system developed by AUSTAR. Such success is based on the long-term effort and resources allocated to talent knowledge development of aspects such as digitalization, PAT, pharmaceutical formulation and data processing technology. CM is a disruptive technology in pharmaceutical manufacturing. The recent enthusiasm on demand for CM applications on innovative and generic drugs following the launch of our CM product and publication has strengthened our confidence that the CM applications can bring tremendous business opportunities in terms of service and equipment in the mid-long term. In the short term, the Group is ready to offer consulting services and pilot equipment to support clients' clinical and formulation development tasks.

In order to win the orders of centralized purchase policy by cost and scale, a digitalized manufacturing facility of extraordinary scale of production in the magnitude of 10 billion tablets/capsules per year had been a challenging but now a realistic competitive edge for pharmaceutical manufacturers to pursue. AUSTAR has assisted clients to implement such facility by our digitalization consulting and critical equipment and systems. The AUSTAR OSD integrated system, developed with solid client references, is able to capture more market share in this market segment.

MANAGEMENT DISCUSSION AND ANALYSIS

In the area of Freeze-drying, Filling & Inspection technology, the Group will work on product R&D and system integration in various product lines, including prefilled syringe (PFS) systems, powder dosing, high-speed liposome filling line, ampoule product lines, liquid nitrogen freeze-dryers, and fully automated aseptic filling system without manual intervention. The Group has evolved from solely providing freeze-drying machines to developing freeze-drying systems (freeze-dryer + sterile isolation + ALUS), and aims to become a comprehensive solution provider for liquid reagents from design to manufacturing and validation, covering core equipment of freeze-dryer, sterile isolator, ALUS, washer, dehydrogenation tunnel, filling and stoppering machine, capping machine, and inspection machine. Through continuous improvements in products, service and spare parts, the Group can enhance its overall competitiveness in global market.

Integrated Filling & Freeze-drying system is now combined with the business segment of Powder and Solid System, bringing additional technical strength to freeze-dryers with its powder handling and highly potent active pharmaceutical ingredient (HPAPI) containment expertise. Vial and Prefilled Syringe Filling Lines and Freeze-Dryers are important core equipment in the pharmaceutical and medical beauty industry. From being a representative for European suppliers to become an equipment manufacturer with its own research and development capabilities, AUSTAR has gone through such tough development process with a classical case like filling line and freeze-dryers, as products from concept to high maturity taking years to complete due to high technical barriers and clients' typical conservative attitudes on new vendor qualification in the pharmaceutical industry. With the new EU GMP Annex I rules followed by WHO and PIC/S new GMP guidelines, the adoption of more stringent sterility assurance approaches will definitely help the Group's filling line and isolator equipment and system business.

The C-True visual inspection machines recently launched in the end of 2023 are expected to obtain a relatively satisfactory number of orders in 2024 as the feedback from the market in the past few months has been exciting. The adoption of its unique "camera non-tracking" visual inspection technology and AI deep-learning technology can ensure stable image acquisition and to tackle defect identification. This product, together with our vial and syringe filling line, is our starting point of business growth journey from primary packaging to secondary packaging.

The AUSTAR UK facility with its research and development, and manufacturing competence can help the Group to develop its business in Europe.

The equipment company Nozzle, with AUSTAR as a minority shareholder, has been delivering satisfactory results; its performance improvement through the Group's operation support is evident in its 2023 financial results. Nozzle's core equipment of powder micronization and nano homogenization has tremendous potentials in complex drug research and manufacturing. Nozzle and AUSTAR are able to bundle our products together to provide competitive offerings.

Consulting, Digitalization and Construction

The scope of the business segment of Consulting, Digitalization and Construction covers services from consulting on front-end engineering, concept and detailed design, digitalization, automation and information systems, GMP compliance and quality systems, facility construction project management and up to facility turnkey solutions in the life sciences industry focusing in the biopharmaceutical sectors. Its strength is based on the Group's sophisticated IT-based project execution processes, pharmaceutical process knowledge and automation and information system engineering knowledge of the REMOIS platform. Such services are able to meet clients' facility management and equipment maintenance and system upgrading requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been delivering turnkey solutions including clean room engineering in regions other than China such as Middle-East and South-East Asia. The skills and knowledge gained in China allow the Group to tackle various kinds of project complexity in the other regions to deliver very competitive and cost-efficient design to build projects as compared to other regional competition players. One of the key business development directions is to explore global expansion opportunities as the profit margin in other regions is better in general.

The design and construction of a high-end CGT facility in hospitals can be one growth driver for this business segment. Our recently acquired project for one National Regional Medical Center in Northeast China sets a good example for such application. In this project, the Group will deliver comprehensive turnkey services and full equipment and system for a smart and modern hospital integrating stem cell transplantation and cell therapy laboratories, medical preparation and intervention in compliance with international standards and the China national tertiary level A general hospital standards.

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

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

The Group has a strong and experienced service team to offer classical repair and maintenance, automation system upgrading up to facility management services. The market demand of services on facility and equipment maintenance has been increasing as pharmaceutical researchers and manufacturers are focusing their resources on core competencies instead of developing staff for repair and maintenance. Outsourcing repair and maintenance to other service vendors instead of executing such operation by clients themselves is a current market trend. The regulatory requirements on computer system validation will bring about technical challenges for our clients to upgrade their automation systems for the updated regulatory compliance.

The GMP compliance and pharmaceutical quality management services offered by the Group are highly recognized in the biopharmaceutical sectors in China and Asia regions. Such experience can be applied to other industrial sectors within life sciences to leverage the reputation gained in the biopharmaceutical sectors, such as animal health, medical beauty, radiopharmaceutical and medical devices, which requires more and more GMP production practices due to the more stringent regulatory inspections by authorities.

MANAGEMENT DISCUSSION AND ANALYSIS

Life Science Equipment and Consumables

The conventional business of the business segment of Life Science Equipment and Consumables is related to service, consumable and equipment. With more than 20 years of dominance in the market in China in sterility assurance for bio decontamination, we have demonstrated a good track record of client loyalty and profit margin. Although it appears to be like a buy-and-resell business model, a deeper examination into this business reveals that its strength and competitiveness rely on its knowledge on decontamination – washing, disinfection and sterilization. One of our key growth initiatives is the launching of our own-brand products several years ago by cooperating with third-party vendors and existing partners with its China manufacturing facilities. As such, we can cover more price-sensitive sectors with higher sales quantities. Another growth momentum driver for this decontamination product and service business is being driven by the regulatory requirements of the EU GMP Annex 1 especially with the efforts PIC/S-EMA-WHO Joint Implementation Working Group on Revised Annex 1 (manufacture of sterile medicinal products) announced in 2023. New sectors like high-value medical beauty, polypeptides and oligonucleotide and other complex drugs can be a new revenue generation source for this business. The CGT sector is a very exciting opportunity for those vendors who are able to offer sterility assurance consulting, supporting services and consumables to those clients where product and patient safety are critical.

Services and products related to the aseptic transfer and single-use bioprocess consumables mainly refers to the clean steam bags and bioprocess bags from our previously joint-venture of PALL-AUSTAR. After the disposal of our interests in this joint-venture to Cytiva-Danaher in 2021, such business as a sales distributor was severely affected. The Group is working out a new business model to tackle the issues and explore such product market opportunities. For aseptic transfer, the Group has partnered with CAPE Europe France ("CAPE Europe"), a joint venture of AUSTAR located in France with innovative rapid transfer port (RTP) products, for sales and technical cooperation. More RTP products will be launched in the coming months and years. For single-use bioprocess consumables, without proper strategies it would be too tough to regain the market share, as client perception and vendor capacities have all changed in the last few years especially during the COVID-19 pandemic period. By leveraging multiple-use stainless steel bioprocess equipment and system knowledge owned by the Group, the Group can offer hybrid bioprocess system engineering products and services.

A strategic direction of the business segment lies in advanced therapies and advanced bioprocess technology in collaboration with the business segment of Integrated Process and Packing Systems. Specifically, the Group has been delivering bioreactors, freeze and thaw equipment and isolators. In the past one to two years, in order to help our clients to tackle the challenges in the advanced therapy medicinal products (ATMP) sector with corresponding solutions, the Group has provided (1) customization of process development and optimization, where the main products are in cell preparation segment and involved in the scaling up process, such as wave bioreactor, glass bioreactor, honeycomb cell culture system and isolator, cell preparation station and cell storage programmable cooling device; and (2) contamination control and containment material handling and transport in its commercial production including cell preparation isolators, sterile transport spare parts and equipment, environmental monitoring systems.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2024, there are certain uncertainties in the development and investment of various process routes in the industry. We will adopt a strategy of agent distribution, own brand products (OBP), and continue to expand the market share of our independently developed products at the same time, where (a) AUSTAR will act as an agent for products of the leading companies of international giants, mainly involving process equipment such as separation and sorting, cell counting, and cell transfection that are not yet matured in domestic technology; (b) AUSTAR will leverage its many years of experience in consumable production to develop OBP products for consumables in the cell therapy industry, mainly focusing on breaking through the separation of packaging consumables, cryopreserved consumables, transshipment consumables and related packaging equipment, programmed cooling equipment and isolation equipment to form a comprehensive solution for packaging and cryopreservation processes; and (c) the Group will take advantage of the business segment of Life Science Equipment and Consumables' ability to combine contamination control processes and ATMP processes to help customers to solve problems such as automation, sealed processing, contamination control, and information traceability in commercial production, mainly expanding the market share of cell culture isolators, cell culture reactor series, sterile transfer devices, and contamination control strategy consulting. At the same time, we will develop and sell products and services with AUSTAR's unique technologies such as automatic cleaning robots and cell tracing system software.

Strong Technical Competence and Knowledge

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

Service Business Opportunities

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

The service business accounted for approximately 14% of total order-in-take in 2023. In 2021, it accounted only for approximately 9%. It is believed that the percentage of service business will further increase in coming years. The scope of the Group's service offerings under the service business has been gradually increasing to enhance its differentiation from competition. It is not easy for competitors to copy the service business, which offers reasonable profit margin contributions to the Group. A dedicated service business growth initiative team was established around two years ago to adopt more aggressive approach and action plans to increase the service business revenue. With the ratio of the Group's service business increasing, the gross margin contributions therefrom would become more significant.

MANAGEMENT DISCUSSION AND ANALYSIS

Global Expansion

For global expansion, we have been gradually building up our team according to our execution strategies, as in the past few years, European and Southeast Asia teams were recruited to directly take care of the related sales leads and enquiries. It is believed that the Group's global sales team is able to contribute a greater portion of sales order-in-take gradually in the near future. It is evident that selling standardized equipment products is easier compared to services and customized-products and systems. The more integrated the system, the more challenging for communicating with clients on technical and commercial proposals and project execution. In the last 10 years the Group has been gradually developing a more standardized core equipment in our product portfolios, which was more convenient to sell than systems in some regions other than China. The Group's global project execution team, through team competence building, has demonstrated its capability in professional project management with very high levels of client satisfaction and client loyalty in the Middle East, North Africa and South East Asia.

Complex Drugs

The US FDA (Food and Drug Administration) has defined complex drugs with the following categories:

1. Products with complex active ingredients (e.g., polypeptides, polymeric compounds, complex mixtures of active pharmaceutical ingredients); complex formulations (e.g., liposomes, colloids); complex routes of delivery (e.g., locally acting drugs, complex ophthalmological products and otic dosage forms that are formulated as suspensions, emulsions, or gels); or complex dosage forms e.g., implantable, transdermal, metered dose inhalers, extended release injectables.
2. Complex drug-device combination products (e.g., auto-injectors, inhalers).
3. Other products where complexity or uncertainty concerning the approval pathway or possible alternative approach would benefit from early scientific engagement.

While complex products are gaining popularity with hundreds of advanced delivery platforms being currently under development, only a handful of technologies are of practical use at this time. Product technology examples in this sector include nanoparticles, drug-eluting systems/devices, liposomes, polymeric microparticles, and others. Complex processing challenges include, among others, aseptic manufacturing, the inclusion of highly potent compounds, milling/particle engineering, spray drying, extrusion, and microfluidization.

In 2022, the Group acquired a 40% share in Noozle, a company which manufactures some of the core equipment of the above-mentioned processes, namely micro and nano particle homogenization including jet milling and microfluidization equipment. For the time being, most of the clients are in the research phases with laboratory and pilot scale equipment and facilities, but it is expected that revenue will increase significantly after these clients have successfully obtained new drug approvals and turn to commercial phases with larger production scales. It is an important supplementary product strategy for the Group to offer complete turnkey solutions with the core equipment available in the scope of Noozle.

MANAGEMENT DISCUSSION AND ANALYSIS

Advanced Therapies Medicinal Products

Due to the release and enforcement of the EU GMP new regulations and process requirements of CGT, sterility assurance in the whole manufacturing process have become stringent and a key consideration in equipment and system engineering. It is believed that with AUSTAR UK, our subsidiary in the United Kingdom, CAPE Europe, our joint venture in France, and the Group's manufacturing facility for sterile transfer and isolation technology in China having joined forces with a strategic goal to offer most competitive sterile protection and assurance scheme globally, will contribute to substantial growth in revenue and profit to the Group.

New therapeutics research and commercialization is one of the key business growth driving forces for life sciences service providers like AUSTAR. It is believed that CGT technology and process are still at an early development phase where there is still much room for innovative and creative service providers to initiate a lot of new business and new products and services in this field. The optimism surrounding this sector has brought about enthusiasm for investment and dedication of resources towards R&D and manufacturing plans in life sciences, as clearly witnessed now in Asia. The Group is getting more and more involved in this sector from strategic and engineering consulting to equipment and consumable supply. Such proactive involvement would help us develop more knowledge and experience to create and innovate products and services in this potential sector.

With the rapid development trend of the CGT sector globally, the approval of Car-T drugs represented that the ATMP products has entered into a stage of rapid development. The Group is dedicated to helping clients to build a compliant, lean and flexible cell therapy facilities, providing engineering and process solutions from conceptual design, clean engineering to core cell therapy process equipment, and building traceable cell therapy automation and information solutions. In 2023, more cell-related equipment and systems in the ATMP sector were being launched, including some products developed and manufactured by the Group with its own intellectual property rights. The strong pipelines of products and services under development, through the corporate level Innovative and Research Centre and through the business unit R&D teams, can support further growth in the Group's business. The recent slower pace of investment in this sector in China seems as a temporary phenomena. Medium-long term trend in the CGT sector is optimistic.

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 RMB1,763.7 million, representing a decrease of approximately 18.2% over the year ended 31 December 2022. It was primarily attributable to the decrease in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System and Life Science Consumables, partially offset by the increase in revenue from the business segments of Powder and Solid System, and Distribution and Agency of Pharmaceutical Equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth, for the years ended 31 December 2023 and 2022, the breakdown of the Group's revenue by business segment from continuing operations:

Revenue by business segment	For the year ended 31 December			Change
	2023 RMB'000	%	2022 RMB'000 (Restated)	
Liquid and Bioprocess System	611,292	34.7%	878,566	40.7% -30.4%
Clean Room and Automation				
Control and Monitoring System	441,209	25.0%	514,070	23.8% -14.2%
Powder and Solid System	251,794	14.3%	245,795	11.4% 2.4%
GMP Compliance Service	90,124	5.1%	94,349	4.4% -4.5%
Life Science Consumables	303,393	17.2%	388,264	18.0% -21.9%
Distribution and Agency of Pharmaceutical Equipment	65,922	3.7%	35,825	1.7% 84.0%
Total	1,763,734	100.0%	2,156,869	100.0% -18.2%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB267.3 million or 30.4% from approximately RMB878.6 million for the year ended 31 December 2022 to approximately RMB611.3 million for the year. The decrease was mainly due to the decrease in opening backlog and lower order-in-take during 2023.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB72.9 million or 14.2% from approximately RMB514.1 million for the year ended 31 December 2022 to approximately RMB441.2 million for the Year. The revenue decrease was mainly due to lower order-in-take in 2023.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB6.0 million or 2.4% from approximately RMB245.8 million for the year ended 31 December 2022 to approximately RMB251.8 million for the Year. This was mainly due to higher opening backlog.

MANAGEMENT DISCUSSION AND ANALYSIS

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service decreased by approximately RMB4.2 million or 4.5% from approximately RMB94.3 million for the year ended 31 December 2022 to RMB90.1 million for the Year. The decrease was mainly due to lower order-in-take, and the lower conversion for the COVID-19 related projects in the opening backlog after the pandemic situation has subsided.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables decreased by approximately RMB84.9 million or 21.9% from approximately RMB388.3 million for the year ended 31 December 2022 to approximately RMB303.4 million for the Year. The decrease was mainly due to lower order-in-take in 2023.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB30.1 million or 84.0% from approximately RMB35.8 million for the year ended 31 December 2022 to approximately RMB65.9 million for the Year. The increase was mainly due to higher opening backlog, and the improvement of project execution efficiency in 2023.

The following table sets forth the breakdown of the Group's revenue from continuing operations geographical regions for the years ended 31 December 2023 and 2022:

Revenue	For the year ended 31 December				
	2023 RMB'000	%	2022 RMB'000 (Restated)	%	Change %
Mainland China	1,681,099	95.3%	2,073,560	96.1%	-18.9%
Other locations	82,635	4.7%	83,309	3.9%	-0.7%
Total	1,763,734	100.0%	2,156,869	100.0%	-18.2%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 95.3% of the total revenue for the Year (2022: approximately 96.1%).

Cost of sales

The Group's cost of sales decreased by approximately RMB240.4 million or 14.4% from approximately RMB1,668.1 million for the year ended 31 December 2022 to approximately RMB1,427.7 million for the Year. The decrease is in line with the drop in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The Group's gross profit from continuing operations decreased by approximately RMB152.7 million or 31.2% from approximately RMB488.8 million for the year ended 31 December 2022 to approximately RMB336.1 million for the Year. The Group is taking actions to improve the businesses with poor profitability performance by better leadership and governance, and strengthen the competence elements of profitable product lines by deploying more corporate-level resources.

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

Gross profit and gross profit margin for continuing operations by business segment	For the year ended 31 December 2023			For the year ended 31 December 2022		
	RMB'000	%	Gross profit margin %	RMB'000 (Restated)	%	Gross profit margin %
Liquid and Bioprocess System	81,635	24.3%	13.4%	140,504	28.7%	16.0%
Clean Room and Automation Control and Monitoring System	78,428	23.3%	17.8%	92,757	19.0%	18.0%
Powder and Solid System	17,786	5.3%	7.1%	51,702	10.6%	21.0%
GMP Compliance Service	38,783	11.5%	43.0%	43,028	8.8%	45.6%
Life Science Consumables	95,655	28.5%	31.5%	146,668	30.0%	37.8%
Distribution and Agency of Pharmaceutical Equipment	23,763	7.1%	36.0%	14,137	2.9%	39.5%
Total	336,050	100.0%	19.1%	488,796	100.0%	22.7%

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB58.9 million or 41.9% from approximately RMB140.5 million for the year ended 31 December 2022 to approximately RMB81.6 million for the Year. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 16.0% for the year ended 31 December 2022 to approximately 13.4% for the year. Gross profit margin decrease reflected the impact of higher project costs due to longer project execution time and the impact of higher mix of strategic projects which are of lower margin. It is expected the gross profit and gross profit margin will be gradually improved with the growth of market share and the expansion of globalization in the coming years.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB14.4 million or 15.5% from approximately RMB92.8 million for the year ended 31 December 2022 to approximately RMB78.4 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System slightly decreased from approximately 18.0% for the year ended 31 December 2022 to approximately 17.8% for the Year. The gross profit decrease is in line with the revenue decrease. The Group will continue to work on the improvement of project execution efficiency by technology upgrading, better project execution control, and technical skill improvement.

Powder and Solid System

The gross profit from the business segment of Powder and Solid System decreased by approximately RMB33.9 million or 65.6% from approximately RMB51.7 million for the year ended 31 December 2022 to approximately RMB17.8 million for the Year. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 21.0% for the year ended 31 December 2022 to approximately 7.1% for the Year. The decrease of gross profit margin was mainly due to more intensive price competition in the market as a result of customers' strategy for cost down under the pressure of volume-based procurement and increased labour costs. In the coming years, more cross-team cooperation projects will be launched with the aim to secure more strategic turn-key projects and Group will focus on new technology solution and project execution efficiency improvement.

GMP Compliance Service

The gross profit from the business segment of GMP Compliance Service decreased by approximately RMB4.2 million or 9.8% from approximately RMB43.0 million for the year ended 31 December 2022 to approximately RMB38.8 million for the Year. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 45.6% for the year ended 31 December 2022 to approximately 43.0% for the Year. The gross profit margin decrease was mainly due to the slowdown in the pharmaceutical industry and the delay of new construction and expansion projects. At the same time, the Group is promoting the expansion of high-end compliance consulting business through on-site visits by higher-end consultants to meet the needs of different customer groups.

MANAGEMENT DISCUSSION AND ANALYSIS

Life Science Consumables

The gross profit from the business segment of Life Science Consumables decreased by approximately RMB51.0 million or 34.8% from approximately RMB146.7 million for the year ended 31 December 2022 to approximately RMB95.7 million for the Year. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 37.8% for the year ended 31 December 2022 to approximately 31.5% for the Year. The decrease of gross profit margin was mainly due to the change in the product mix including new product launch. New product's competitiveness is slightly weaker due to high cost at product's growth stage. The Group will strengthen the promotion through more proactive marking activities to improve new product market share. Meanwhile, lean production and improved supply chain management in the business segment are expected to play an important role to improve the gross profit margin.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB9.7 million or 68.8% from approximately RMB14.1 million for the year ended 31 December 2022 to approximately RMB23.8 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 39.5% for the year ended 31 December 2022 to approximately 36.0% for the Year. The decrease in gross profit margin was mainly due to the impact from more intensive competitions in small to medium sized projects and customers' cost down strategy. The Group will provide more customized designs and solutions to different customer groups and optimize the pricing strategy. At the same time, the Group will continue to work on the improvement of project execution efficiency to further improve gross profit margin.

Selling and marketing expenses

Selling and marketing expenses decreased slightly by approximately RMB9.8 million or 5.5% to approximately RMB167.3 million for the Year from approximately RMB177.1 million for the year ended 31 December 2022. The decrease was a combined result of decrease of personnel cost and increase of promotion expenses, after sales service expense and travelling expense.

Administrative expenses

Administrative expenses increased slightly by approximately RMB4.9 million or 3.8% to approximately RMB133.7 million for the Year from approximately RMB128.8 million for the year ended 31 December 2022. The increase was a combined result of decrease of personnel cost, agent fee, and increase of audit fee, travelling expense and professional service fee.

MANAGEMENT DISCUSSION AND ANALYSIS

Net impairment (losses)/gain on financial assets and contract assets

Net impairment losses on financial assets and contract assets of approximately RMB31.9 million were recorded for the Year, while net impairment gain on financial assets and contract assets of approximately RMB3.2 million was recorded for the year ended December 2022. The impairment losses mainly reflected the impact of credit risk individual assessment for certain higher-risk customers and projects after the consideration of the likelihood of recovering from specific debtors.

Research and development expenses

The Group's research and development expenses decreased by approximately RMB14.9 million or 21.1% to approximately RMB55.3 million for the Year from approximately RMB70.2 million for the year ended 31 December 2022, mainly due to the headcount decrease and decrease of material consumption during the Year.

Other income

Other income increased by approximately RMB0.5 million or 4.5% to approximately RMB11.7 million for the Year from approximately RMB11.2 million for the year ended 31 December 2022, because of the increase in the tax subsidies granted by local government authorities of the PRC in the Year.

Other gains/(losses) – net

The Group recorded a net other gain of approximately RMB10.5 million for the Year, which was mainly due to the exchange gains of approximately RMB7.1 million and the disposed gain of right of use assets of approximately RMB5.0 million, offset by a loss on disposal of property, plant and equipment of approximately RMB0.9 million. For the year ended 31 December 2022, there was exchange losses of approximately RMB6.1 million.

Finance costs – net

Finance costs – net increased from approximately RMB6.4 million for the year ended 31 December 2022 to approximately RMB11.1 million for the Year, mainly due to the increase of interest expense as a result of new borrowings during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group's share of net profit of investments accounted for using equity method decreased by approximately RMB2.8 million, from approximately RMB9.5 million for the year ended 31 December 2022 to approximately RMB6.7 million for the Year, primarily due to the decrease in profit contribution from the Group associates, Steris-Austar Pharmaceutical Systems (Shanghai) Ltd.

(Loss)/profit before income tax

The Group recorded a loss before income tax of RMB34.4 million for the Year as compared to a profit before income tax of approximately RMB119.5 million for the year ended 31 December 2022, which was due to the factors as described above in this section.

Income tax expense

Income tax expense decreased by approximately RMB18.5 million, from approximately RMB18.9 million for the year ended 31 December 2022 to approximately RMB0.4 million for the Year, which was mainly due to the decrease of profit before income tax.

(Loss)/profit for the year

The Group recorded a loss for the year of RMB151.3 million for the Year as compared to a profit for the year of approximately RMB67.7 million for the year ended 31 December 2022, which was primarily attributable to the factors as described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended 31 December 2023	For the year ended 31 December 2022
	RMB'000	RMB'000
Net cash used in operating activities	(62,649)	(37,926)
Net cash used in investing activities	(54,467)	(153,143)
Net cash from financing activities	147,115	125,301
Net increase/(decrease) in cash and cash equivalents	29,999	(65,768)

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year, the Group had net cash used in operating activities of approximately RMB62.6 million mainly attributable to:

- i. the loss before income tax from continuing operations for the Year of approximately RMB34.4 million, plus the depreciation of property, plant, equipment and right-of-use assets in total of approximately RMB38.0 million and the amortization of intangible assets of approximately RMB7.6 million;
- ii. the decrease in contract liabilities of approximately RMB203.5 million; and the increase in contract assets of approximately RMB71.1 million; and the decrease in trade and other payables of approximately RMB75.0 million;
- iii. partially offset by the decrease in inventory of approximately RMB85.5 million; and the decrease in trade and other receivables of approximately RMB68.7 million.

For the Year, the Group had net cash used in investing activities of approximately RMB54.5 million, which was mainly attributable to the purchase of property, plant, equipment and intangible assets in a total amount of approximately RMB70.9 million, partially offset by proceeds from disposal of land use right of approximately RMB12.4 million.

For the Year, the Group had net cash generated from financing activities of approximately RMB147.1 million mainly due to the proceeds from borrowings of approximately RMB442.4 million, partially offset by the repayments of borrowings of approximately RMB261.6 million, principal elements of lease payments of approximately RMB10.2 million and interest paid of approximately RMB13.9 million.

As at 31 December 2023 and 31 December 2022, the Group had cash and cash equivalents of approximately RMB163.8 million and RMB133.6 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB36.4 million and RMB103.9 million respectively, and term deposits with initial term of over three months of approximately RMB10.0 million and RMB14.5 million respectively.

Net current assets

The Group's net current assets as at 31 December 2023 decreased by approximately RMB45.1 million or 10.2% from approximately RMB441.2 million as at 31 December 2022 to approximately RMB396.1 million as at 31 December 2023, was driven by decrease of revenue.

As at 31 December 2023, the Group's total current assets amounted to approximately RMB1,573.8 million, which represented a decrease of approximately RMB227.2 million as compared with that of approximately RMB1,801.0 million as at 31 December 2022.

As at 31 December 2023, the Group's total current liabilities amounted to approximately RMB1,177.7 million, which represented a decrease of approximately RMB182.1 million as compared with that of approximately RMB1,359.8 million as at 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings and gearing ratio

As at 31 December 2023, the total short-term interest-bearing bank borrowings amounted to RMB255.3 million. The secured short-term bank borrowings amounted to RMB61.4 million, bearing interest rates ranging from 2.40% to 4.00% per annum (2022: 4.00% to 4.52% per annum), and the unsecured short-term bank borrowings amounted to RMB193.9 million, bearing interest rates ranging from 3.10% to 4.10% per annum (2022: 3.80% to 7.00% per annum). The long-term bank borrowings amounted to RMB110.8 million, bearing interest rates from 3.50% to 4.35% per annum (2022: 4.45% to 4.65%). The long-term borrowings due within one year amounted to RMB64.5 million, bearing interest rates from 3.50% to 4.35% per annum (2022: 4.45% to 4.65%).

The Group's gearing ratio was approximately 39.2% as at 31 December 2023 (31 December 2022: 27.8%). The ratio was calculated based on the total debts as of the respective dates divided by total capital equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2023, in addition to pledged bank deposits of approximately RMB36.4 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB229.9 million and approximately RMB61.8 million respectively (31 December 2022: approximately RMB4.1 million and approximately RMB68.8 million respectively), Nil construction in progress (31 December 2022: approximately RMB124.4 million) and assets classified as held for sale having a total carrying amount of approximately RMB8.6 million (31 December 2022: nil) which were pledged as security for short- term bank borrowings and long-term bank borrowings with carrying amount of approximately RMB139.2 million (31 December 2022: approximately RMB107.2 million).

Contingent liabilities

As at 31 December 2023, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilized by ROTA KG, an investment accounted for using the equity method, totalling EUR887,000 approximated at RMB6,971,000. It sets forth the maximum exposure of these guarantees to the Group.

HUMAN RESOURCES

As at 31 December 2023, the Group had 1,610 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, decreased by 303 employees as compared with the number of employees as at 31 December 2022. The employee costs (including the Directors' remuneration) were approximately RMB459.8 million for the Year, which represented an increase of approximately 0.5% as compared with that of approximately RMB457.5 million for the year ended 31 December 2022.

Employee costs of the Group decreased mainly due to the Group's decrease in its number of employees for the purpose of organizational structure optimization and stimulate organizational vitality.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has established various welfare plans including the provision of basic medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. The Group has also made statutory contributions for its employees in Hong Kong, Taiwan, India, Indonesia, Germany, UK and Malaysia.

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

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 2023 amounted to approximately RMB2.1 million, which was mainly from the unpaid commitment of construction of the new facilities in Shanghai and Shijiazhuang, which have been completed before end of the Year.

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

Except for the discontinued operations of H+E Pharma GmbH and S-Tec GmbH as discussed in Note 10 to the Consolidated Financial Statements herein, there were no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group during the Year.

FOREIGN EXCHANGE RISK

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Our Board comprises eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors. The following tables sets forth certain information relating to our Directors:

Name	Age	Position
Executive Directors		
Mr. Ho Kwok Keung, Mars	61	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	67	Executive Director
Mr. Chen Yuewu	57	Executive Director
Madam Zhou Ning	51	Executive Director
Non-executive Director		
Madam Ji Lingling	41	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	52	Independent non-executive Director
Madam Chiu Hoi Shan	47	Independent non-executive Director
Mr. Leung Oi Kin	49	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho") (何國強), aged 61, is the founder of the Group. He was appointed as a Director on 9 January 2014 and has been an executive Director since 20 June 2014. He is the chairman of the Board, the chief executive officer of the Company, the chairman of the nomination committee of the Board ("Nomination Committee"), a member of the corporate governance committee of the Board ("Corporate Governance Committee") and a director of certain subsidiaries of the Company. He is responsible for overseeing the business, corporate strategy and long-term planning all-round development of the Group. Mr. Mars Ho has over 35 years of experience in the pharmaceutical industry. In recognition of Mr. Mars Ho's dedication and achievements in the pharmaceutical industry, he was selected and awarded the honor of pharmaceutical 中國醫藥「60年60人」 ("60 Elites of 60 years" in China Pharmaceutical) in November 2009, which is a recognition of his effort in influencing and contributing to the pharmaceutical industry in China and was awarded the title of 行業領航人 ("Industry Pilots") by China National Pharmaceutical Packaging Association in April 2019, which is a recognition of his long-term and outstanding contribution to the development of pharmaceutical packaging of China. He had served as the chairman of China Affiliate of International Society of Pharmaceutical Engineering (ISPE) from 2011 to 2012 and had been a member of the ISPE China board of directors and executive council from 2013 to 2017. Mr. Mars Ho had co-edited a number of pharmaceutical professional books such as Pharmaceutical Process Validation Manual, Microbial Control in Pharmaceutical Cleanroom, Pharmaceutical Liquid Process, Pharmaceutical Water Systems and Quality Risk Management in Pharmaceutical Industry: A Practical Guide. He is the current technical consultant and a member of the board of directors of China National Pharmaceutical Packaging Association. Mr. Mars Ho obtained a bachelor of science degree in engineering from The University of Hong Kong in November 1985. Mr. Mars Ho is a director of Standard Fortune Holdings Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO") and the controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules")) of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Kin Hung ("Mr. KH Ho") (何建紅), aged 67, joined the Group on 20 August 2003. He was appointed as a Director on 9 January 2014 and has been an executive Director since 20 June 2014. Mr. KH Ho is also a director of two subsidiaries of the Company. He is responsible for overall management of operations and sales of the Group. Mr. KH Ho has over 40 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. KH Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in China trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987. Mr. KH Ho is a director of True Worth Global Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Chen Yuewu ("Mr. Chen") (陳躍武), aged 57, joined the Group on 1 August 2005 and has been an executive Director since 20 June 2014. He is also a member of the risk management committee of the Board ("Risk Management Committee") and a director of a subsidiary of the Company. Mr. Chen is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has over 30 years of experience in the pharmaceutical industry. Mr. Chen had been a technical services manager in a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company since April 2000. Mr. Chen obtained a bachelor's degree of electrical engineering in industrial electrical and automated production in July 1990 from 河北工學院 (Hebei Institute of Technology*) in China. He further completed a one-year course in economics and management strategy at 北京大學 (Peking University*) in October 2012. In December 2020, Mr. Chen obtained the qualification as Senior Engineer in Food and Drug Engineering from the Title Reform Leading Group Office of Hebei Province.

Madam Zhou Ning ("Madam Zhou") (周寧), aged 51, joined the Group on 10 April 2014 and has been an executive Director since 20 June 2014. She is also the chairlady of each of the Corporate Governance Committee and the Risk Management Committee and a member of the remuneration committee of the Board ("Remuneration Committee"). Madam Zhou is also a director of certain subsidiaries of the Company. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 15 years of experience in the pharmaceutical industry. Before joining the Group in April 2014, from November 2005 to February 2014, Madam Zhou had been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, responsible for finance, supply chain and factory operation management. Madam Zhou graduated with a bachelor's degree of arts from 北京師範大學 (Beijing Normal University*) in China in June 1995 and a master's degree in business administration from 北京大學 (Peking University*) in China in January 2006.

* For identification purpose only

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling ("Madam Ji") (季玲玲), aged 41, has been a non-executive Director since 20 June 2014, on which she joined the Group. She is also a member of each of the audit committee of the Board ("Audit Committee") and the Risk Management Committee. Madam Ji is a qualified lawyer in the PRC and has over 15 years' experience in legal compliance. Since July 2005, Madam Ji has been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting him in overseeing all legal matters. Madam Ji graduated from 中國人民大學 (Renmin University of China*) in China with a bachelor's degree in laws in July 2004 and from 北京大學 (Peking University*) in China with a master's degree in laws in January 2012 respectively. Madam Ji also obtained the Master of Laws degree from Temple University of the United States in November 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("Mr. Cheung") (張立基), aged 52, has been an independent non-executive Director since 21 October 2014. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over 28 years of experience in auditing, accounting and financing. He has worked for big four accounting firms (Ernst & Young and KPMG, Certified Public Accountants). He has also served as different roles such as executive director, chief financial controller and company secretary, etc. in several companies which are listed on the Main Board of the Stock Exchange. Mr. Cheung received a bachelor's degree in commerce from The Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006.

Madam Chiu Hoi Shan ("Madam Chiu") (趙凱珊), aged 47, has been an independent non-executive Director since 21 October 2014. She is also the chairlady of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee. Madam Chiu obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in December 1998 and June 1999 respectively. She has been practicing as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. Madam Chiu commenced practice as a founding partner of Chiu & Co. as from August 2017 and remains as a partner of S.H. Leung & Co, both are solicitors' firms in Hong Kong engaged in the provision of various legal services. Madam Chiu has served as company secretary of Chongqing Machinery & Electric Co., Ltd* (Stock code: 2722) since October 2014, (joint) company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053) since March 2018, and joint company secretary of Maanshan Iron & Steel Company Limited (Stock code: 323) since April 2018, shares of all of the above companies are listed on the Main Board of the Stock Exchange. Madam Chiu was appointed as a mediator of Shenzhen Qianhai International Commercial Mediation Center and an arbitrator of Nanjing Arbitration Commission since August 2020.

* For identification purpose only

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung Oi Kin ("Mr. Leung") (梁愷健), aged 49, has been an independent non-executive Director since 21 October 2017. Mr. Leung is a professional accountant and a fellow member of the CPA Australia. He has over 20 years of experience in accounting and financial management. Mr. Leung worked in PricewaterhouseCoopers audit and assurance services team. Mr. Leung has served as an executive director and the company secretary of G-Resources Group Limited (Stock code: 1051), shares of which are listed on the Main Board of the Stock Exchange, since November 2016 and December 2016, respectively. Mr. Leung graduated from University of Adelaide, Australia in 1997 with a bachelor's degree in commerce and obtained the degree of master of business administration with honor from the University of Chicago Booth School of Business in 2022 in the United States.

SENIOR MANAGEMENT

Name	Age	Position
Madam Wang Wei	50	Vice-president
Madam Tang Xiangdi	46	Vice-president of Corporate Development

Madam Wang Wei ("Madam Wang") (王瑋), aged 50, was appointed as the Group's vice-president in October 2015 and she is primarily responsible for the marketing of the Group. Madam Wang joined the Group in October 2003 and was responsible for sales marketing and operation of consumables, instrument and equipment in lifesciences industry until June 2015. From June 2015, Madam Wang takes charge of full operations of Lifesciences Instrument & Consumables Business Unit. She was also appointed as general manager of Austar Hansen Lifesciences (Shanghai) Ltd. in June 2015. Prior to joining the Group, Madam Wang worked for NCPC Genetec Biotechnology Co. Limited as quality assurance supervisor from 2000 to 2003 and served as the leader of Strain Breeding Group, Hebei Welcome Pharmaceutical Co., Ltd. from 1995 to 1999. Madam Wang obtained a bachelor's degree from Hebei University of Science and Technology on 5 January 2010.

Madam Tang Xiangdi ("Madam Tang") (唐湘娣), aged 46, was appointed as our Group's financial controller on 1 November 2013 and has served as the Group's vice-president of corporate development since 1 December 2020. She is primarily responsible for corporate development. Madam Tang joined the Group in January 2013. She has over 15 years of experience in financial reporting and treasury management. She had been a finance manager since April 2009 in a company controlled by Mr. Mars Ho, the chairman of the Board, chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, prior to joining the Group. Madam Tang obtained a bachelor's degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master's degree of business administration from 北京大學 (Peking University) in June 2014, a master's degree of accounting from 清華大學 (Tsinghua University) and a master's degree of science in CFO leadership from 新加坡管理大學 (Singapore Management University) in June 2022.

* For identification purpose only

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's operations are substantially conducted through its subsidiaries in the PRC. The Group is principally engaged in providing integrated engineering solutions to pharmaceutical manufacturers and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the PRC under six business segments: (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. Details of principal activities of the subsidiaries of the Company are set out in Note 38 to the Consolidated Financial Statements.

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

- (a) review of the Company's business and financial position and development and future prospects of the Company's business are shown in the sections headed "Chairman's Statement" and the "Management Discussion and Analysis" of this annual report;
- (b) details of key performance indicators are shown in the sections headed "Financial Highlights" and "Management Discussion and Analysis" of this annual report;
- (c) the principal risks and uncertainties facing the Company are shown in the paragraph headed "Risks and uncertainties" below;
- (d) the Group's environmental policies and performance are shown in the paragraph headed "Environmental, Policies and Performance" below;
- (e) the Group's key relationships with employees, customers and suppliers are shown in the paragraph headed "Relationships with key stakeholders" below; and
- (f) the Group's compliance with the relevant laws and regulations are shown in the paragraph headed "Compliance with laws and regulations" below.

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

REPORT OF THE DIRECTORS

RISKS AND UNCERTAINTIES

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

RISKS

Business/Market risks

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

Customer relationship management is a series of strategies and processes that create new and mutual value for individual customers, builds preference for their organizations, improves business results over a lifetime of association with their customers, and in turn, creates loyalty and customer retention. Higher risk in customer relationship management may have negative impact on customer retention or result in loss of client information upon departure of our staff.

MAJOR RELEVANT ALLEVIATING MEASURES

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

Through proactive communication with its customers and strong research teams, the Group is able to develop and improve its products and services to cater various needs of the market and to provide the tailor-made products and services to different clients for enhancing the price advantage of the Group. Such efforts are reflected not only in the Group's products, but also through seminars, publications and participations in international exhibitions, to develop the "AUSTAR" brand image and receive recognition and awareness among the Group's customers, industry experts and the market at large.

To manage the customer relationship management risk, all customer information (including potential clients) will be gathered and stored in a centralized electronic database of the Company, instead of being kept by individual sales staff. This can prevent the loss of customer information when sales staff leaves the Company.

RISKS

Operational risks

Cost management is critical in ensuring the Group's projects meet their budgeted profit margins. The risk of cost overrunning increases with the prolonged execution of projects and cost of labours.

The Group's operations are highly dependent on its personnel, including both senior and mid-level management, engineers, skilled technical personnel and marketing and sales personnel. The Group may be materially and adversely affected if any of these key personnel leaves the Group and there being no adequate and timely replacement.

MAJOR RELEVANT ALLEVIATING MEASURES

The Group, through various means in particular the establishment of engineering project execution centre, strives to promote closer relationship and information sharing between the marketing team, project engineers and technical experts in budgeting and cost monitoring.

The engineering project execution centre also strengthens the Group's ability to monitor and coordinate its various projects, both in supply chain management and human resources allocation, in order to achieve an optimal use of the Group's resources and avoid its personnel being overworked.

The Group also closely monitors its staffing and maintains close communication between the engineering project execution centre and the human resources department, so that any recruitment needs would be promptly responded.

Allocating ample resources to staff training and development with the aim of sustaining a competent, professional and ethical staff force, and assisting the long-term career development of staff.

RISKS

MAJOR RELEVANT ALLEVIATING MEASURES

Compliance risks

The Group's operations are subject to the environmental protection, safety and health laws and regulations in the PRC. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of the Group's licences or permits to conduct its business. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources in establishing efficient compliance and monitoring systems.

Through close monitoring of various legal and regulatory pronouncements from the government by its industry experts and legal and compliance personnel, the Group is able to keep itself updated with various regulatory requirements. Adequate and timely trainings are provided to operational staff, and monitoring and control measures are established to ensure efficient and effective compliance with the laws and regulations.

Please also refer to Note 34 to the Consolidated Financial Statements for the financial risk management objectives and policies of the Group.

RELATIONSHIPS WITH KEY STAKEHOLDERS

a) Employees

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

b) Customers

As disclosed in the paragraph headed "Major customers and suppliers" below, the five largest customers of the Group accounted for approximately 13.2% of the Group's total revenue for the Year. These major customers are chemical and biopharmaceutical manufacturers and the Group has maintained stable relationships with them for around 1 to 17 years. The credit period granted to these major customers are in line with those granted to the other customers. During the Year, settlement of trade receivables by these major customers in accordance with the credit terms granted were satisfactory.

Taking into account the considerable revenue of the Group attributable to its key customers and the possible financial and reputational impact which could bring to the Group if the Group shall lose these major customers, the Group has implemented a series of policies including customer complaints management, customer satisfaction survey, top management random inspection and after-sales service, in order to maintain customer intimacy and keep good relationship with its key customers.

During the Year, the Group has organized and attended public training and seminars with attendees from pharmaceutical companies who are mainly from production, quality, and engineering departments. The introduction of advanced concepts is deemed to improve the overall level of the pharmaceutical industry.

The Group also continues its pace in research and development with an aim to offer more comprehensive solutions to its customers, so as to retain existing customers and attract new customers.

c) Suppliers

The Group has developed stable relationships with many of its key suppliers and generally retain one to three suppliers for each principal raw material. At the beginning of each year the management discusses with major suppliers about price deduction, payment terms improvement and enters into master procurement agreements. The Group also conducts annual appraisal on all existing suppliers so as to ensure materials produced by those suppliers are in line with the Group's quality requirement.

To keep the Group at the forefront of innovation, suppliers are frequently invited to give new products training to the Group's staff including those from the sales, technical and procurement departments. New ideas can be applied to project proposals so as to provide customers with most competitive solutions.

Further discussion on the relationships with key stakeholders are also contained in the Environmental, Social and Governance Report of the Company for the Year ("**2023 ESG Report**").

Environmental Policies and Performance

It is the Group's corporate and social responsibility to promote a sustainable and ecofriendly environment. In this respect, the Group strives to minimize its environmental impact by reducing the carbon footprint and to build its corporation in a sustainable way. During the Year, the Group is subject to various environmental protection laws and regulations. For more details, please refer to the 2023 ESG Report for the Group's work in respect of environmental protection, social and governance during the Year.

REPORT OF THE DIRECTORS

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Shares are listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all relevant laws and regulations in the PRC and applicable laws in the jurisdictions where it has operations. During the Year and up to the date of this report of the Directors, the Board was unaware of any non-compliance with relevant laws and regulations that have a significant impact on the business and operations of the Group.

Further discussion on the Group's compliance with laws and regulations is contained in the 2023 ESG Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Financial Statements of this annual report. The Directors do not recommend the payment of any dividend for the Year.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, 31 May 2024 ("**2024 AGM**").

For determining the entitlement to attend and vote at the 2024 AGM, the register of members of the Company will be closed from Monday, 27 May 2024 to Friday, 31 May 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2024 AGM, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on Friday, 24 May 2024.

FINANCIAL SUMMARY

A summary of the published financial results and of the assets and liabilities of the Group for the Year, together with the financial results and of the assets and liabilities of the Group for the four years ended 31 December 2022 is set out in the section headed "Five-year Financial Summary" of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the Group's property, plant and equipment during the Year are set out in Note 14 to the Consolidated Financial Statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2023 are set out in Note 26 and Note 27 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 24 to the Consolidated Financial Statements. There was no movement in the Company's share capital during the Year.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity on pages 91 to 92 and in Note 39 to the Consolidated Financial Statements respectively.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the shareholders of the Company ("Shareholders") as at 31 December 2023 amounted to RMB437,149,000 (31 December 2022: RMB434,700,000).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed minimum percentage of public float during the Year and up to the date of this annual report as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association ("Articles") or applicable laws of the Cayman Islands, the jurisdiction in which the Company is incorporated.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Ho Kwok Keung, Mars (*Chairman and Chief Executive Officer*)

Mr. Ho Kin Hung

Mr. Chen Yuewu

Madam Zhou Ning

Non-executive Director

Madam Ji Lingling

Independent Non-executive Directors

Mr. Cheung Lap Kei

Madam Chiu Hoi Shan

Mr. Leung Oi Kin

In accordance with Article 84 of the Articles, Mr. Ho Kin Hung, Madam Ji Lingling and Mr. Cheung Lap Kei will retire by rotation at the 2024 AGM and, being eligible, will offer themselves for re-election.

DIRECTORS' PROFILES

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has renewed his/her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2022, subject to certain early termination clauses of the letter.

The non-executive Director has renewed her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2023, subject to certain early termination clauses of the letter.

Each of the independent non-executive Directors has renewed his/her letter of appointment with the Company for a fixed term of one year commencing on 21 October 2023, subject to certain early termination clauses of the letter.

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

REPORT OF THE DIRECTORS

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("Model Code") set out in Appendix C3 to the Listing Rules, were as follows:

Long position:

Name of Director	The Company/ Name of associated corporations	Capacity/Nature of interest	Number and class of shares held/interested in the Company/ associated corporations	Approximate percentage of interest
Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho")	The Company	Interest of a controlled corporation	335,929,000 Shares (Note 1)	65.54%
	The Company	Interest of spouse	3,750,000 Shares (Note 2)	0.73%
	Standard Fortune Holdings Limited ("SFH") (Note 3)	Beneficial owner	1 ordinary share of US\$1	100%
Mr. Ho Kin Hung ("Mr. KH Ho")	The Company	Interest of a controlled corporation	37,271,000 Shares (Note 4)	7.27%

Notes:

- (1) Such Shares were registered in the name of SFH, a company wholly-owned by Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares held by SFH. Mr. Mars Ho is a director of SFH.
- (2) Such Shares were registered in the name of Honour Choice Ventures Limited ("HCV"), a company wholly-owned by Madam Gu Xun ("Madam Gu"), the spouse of Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares in which Madam Gu is interested or deemed to be interested.

REPORT OF THE DIRECTORS

- (3) As at 31 December 2023, SFH was the holding company of the Company and thus an associated corporation of the Company.
- (4) Such Shares were registered in the name of True Worth Global Limited ("TWG"), a company wholly-owned by Mr. KH Ho. By virtue of the provisions of Part XV of the SFO, Mr. KH Ho is deemed to be interested in all the Shares held by TWG.

Save as disclosed above, as at 31 December 2023, none of the Directors and/or chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year was the Company or its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of acquisitions of Shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS

During the Year, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. All related party transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. The Company confirms that it has complied with the requirements under Chapter 14A of the Listing Rules. Details of these related party transactions are disclosed in Note 36 to the Consolidated Financial Statements.

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in Note 11 to the Consolidated Financial Statements. The Directors' remunerations, bonuses and other compensation are recommended by the Remuneration Committee with reference to the Directors' duties, responsibilities and the Group's performance and results and approved by the Board.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The Articles provide that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Save for the above, at no time during the Year and up to the date of this annual report, there was or is, any permitted indemnity provision (as defined in Section 9 of the Companies (Directors' Report) Regulation (Cap. 622D of the Laws of Hong Kong)) being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

RETIREMENT SCHEMES

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and the Mandatory Provident Fund Scheme for the employees in Hong Kong. The Group has also made statutory contributions for its employees in India, Indonesia, Germany, UK and Malaysia. Particulars of these retirement plans are set out in Note 2.23 to the Consolidated Financial Statements.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2023, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executive of the Company), who had interests in the Shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long position:

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

Notes:

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

Save as disclosed above, as at 31 December 2023, the Directors and the senior management of the Company are not aware of any other person who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code ("Corporate Governance Code") contained in Part 2 of Appendix C1 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" of this annual report. The Board will continue to review and monitor the practices of the Company with an aim to maintaining the highest standard of corporate governance.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the largest customer and the largest supplier of the Group accounted for approximately 3.2% and 8.0% of the Group's total revenue and total purchases respectively, and the five largest customers and the five largest suppliers of the Group accounted for approximately 13.2% and 20.6% of the Group's total revenue and total purchases respectively.

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

AUDIT COMMITTEE

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

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

AUDITOR

On 17 November 2023, PricewaterhouseCoopers, resigned as the auditor of the Company ("Auditor") and Moore CPA Limited ("Moore") was appointed by the Board as the Auditor to fill the casual vacancy so arising. Apart from this, there were no other changes of the Auditor in the preceding three years. The Consolidated Financial Statements for the Year have been audited by Moore, who shall retire and, being eligible, offer themselves for re-appointment at the 2024 AGM. A resolution for the re-appointment of Moore as the Auditor is to be proposed at the 2024 AGM.

On behalf of the Board

Ho Kwok Keung, Mars

Chairman

26 March 2024

CORPORATE GOVERNANCE REPORT

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code contained in Part 2 of Appendix C1 to the Listing Rules.

Save for the deviation from code provision C.2.1 of the Corporate Governance Code as described in the paragraph headed "Chairman and Chief Executive Officer" below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the Year.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

BOARD OF DIRECTORS

Function of the Board

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

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

Board Composition

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

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

Executive Directors

Mr. Ho Kwok Keung, Mars	Chairman of the Board Chief executive officer of the Company Chairman of the Nomination Committee Member of the Corporate Governance Committee
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Mr. Ho Kin Hung

Mr. Chen Yuewu	Member of the Risk Management Committee
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Madam Zhou Ning	Chairlady of each of the Corporate Governance Committee and the Risk Management Committee Member of the Remuneration Committee
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Non-executive Director

Madam Ji Lingling	Member of each of the Audit Committee and the Risk Management Committee
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Independent non-executive Directors

Mr. Cheung Lap Kei	Chairman of the Audit Committee Member of each of the Remuneration Committee and the Nomination Committee
Madam Chiu Hoi Shan	Chairlady of the Remuneration Committee Member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee
Mr. Leung Oi Kin	

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

The Company has received a confirmation of independence from each of Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Leung Oi Kin, being all the independent non-executive Directors. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

MECHANISM TO ENSURE INDEPENDENT VIEWS AND INPUTS TO THE BOARD

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

- Where appropriate, the Company shall arrange suitable and sufficient resources to cover any matters relating to the obtaining of an independent opinion by the Board, including but not limited to the engagement of a legal team or any other professionals for such purpose;
- Where appropriate, the Directors shall give at least three working days' notice to the Company Secretary of the Company to obtain an independent opinion, including but not limited to engaging a professional team for such purpose;
- The Board is required to review its structure, size, composition (including skills, knowledge and experience) and diversity policy at least annually to ensure that the composition of the Board complies with the relevant requirements of the Listing Rules including maintaining a balanced mix of executive and non-executive Directors (including independent non-executive Directors) so that the Board has a strong element of independence which can effectively exercise independent judgment; and
- If all the independent non-executive Directors have served on the Board for more than nine years, the Company should consider to appoint a new independent non-executive Director at the forthcoming annual general meeting.

The Board has reviewed the implementation and effectiveness of the said mechanism during the Year and considered that it has been operating effectively and will continue to monitor its implementation and effectiveness on an annual basis.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

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

Audit Committee

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

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

During the Year, the Audit Committee held six meetings, and the attendance of each member is set out in the paragraph headed “Board meetings and general meeting – Directors’ attendance records at meetings of the Board and the Board Committees and general meeting” below.

In addition to the Audit Committee meetings, the Audit Committee also dealt with matters by way of circulation of written resolution during the Year.

A summary of the work performed by the Audit Committee during the Year is listed below:

- reviewed the Group’s annual financial statements for the year ended 31 December 2022 and interim financial statements for the six months ended 30 June 2023 and the related result announcements, documents and other matters or issues raised by external auditor of the Company;
- recommended to the Board to consider the change of the Auditor;
- reviewed the terms of engagement of the Auditor;
- considered the audit planning in respect of the Group’s audit work for the Year;
- reviewed the Group’s internal audit plan for the three years ending 31 December 2025;

- discussed and confirmed with the management the effectiveness of the Group's financial reporting process, risk management and internal control systems; and
- reviewed the terms of reference of the Audit Committee.

REMUNERATION COMMITTEE

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

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

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

During the Year, the Remuneration Committee held one meeting and the attendance of each member is set out in the section headed "Board meetings and general meeting – Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

A summary of the work performed by the Remuneration Committee during the Year is listed below:

- reviewed the existing policy and structure for the remuneration of the Directors and senior management of the Company;
- reviewed and recommended to the Board the remuneration adjustment proposal for executive Directors, non-executive Director and senior management of the Company and the remuneration packages of independent non-executive Directors; and
- reviewed the terms of reference of the Remuneration Committee.

Nomination Committee

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

CORPORATE GOVERNANCE REPORT

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

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

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

- (a) participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the Audit Committee, the Remuneration Committee and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board Committees, if invited;
- (d) bringing a range of business and financial experience to the Board, giving the Board and any Board Committees on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the meetings of the Board/Board Committees;
- (e) scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;
- (f) ensuring the Board Committees on which he or she serves to perform their powers and functions conferred on them by the Board; and
- (g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

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

CORPORATE GOVERNANCE REPORT

When considering the appointment or re-appointment of Directors, the Nomination Committee will consider various factors including the background, experience and qualification of the proposed candidates to ensure that the proposed candidates possess the requisite experience, characters and integrity to act as a Director, and other criteria with regard to the benefits of diversity, including but not limited to gender, age, cultural and educational background, or professional experience and taking into account the Group's business model and specific needs, as set out in the board diversity policy ("Board Diversity Policy") adopted and amended by the Company on 21 October 2014 and 27 September 2022, respectively which is available on the websites of the Company and the Stock Exchange.

Below is the summary of the Board Diversity Policy:

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

During the Year, the Nomination Committee held one meeting and the attendance of each member is set out in the section headed "Board meetings and general meeting – Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

A summary of the work performed by the Nomination Committee during the Year is listed below:

- reviewed the Board's structure, size and composition;
- assessed the independence of the independent non-executive Directors;
- made recommendation to the Board on the re-election of retiring Directors at the 2023 AGM (as defined below);
- review the time required from non-executive Director and independent non-executive Directors to perform his/her responsibilities to the Company; and
- reviewed the terms of reference of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

During the Year, the Nomination Committee had principally reviewed the Board composition and was of the opinion that the Board consisted of members with different gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge, which met the objectives under the Board Diversity Policy.

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

The Group also seeks to achieve a diverse workforce. As at 31 December 2023, the male to female gender ratio in the Company's workforce (including senior management) is approximately 76:24. However, the Group mainly considers the personal merits and capabilities, qualifications, working experiences and performance of the individuals during the recruitment process, transferal, promotion, and training regardless of gender. In the interests of enhancing operational efficiency, the Company has not set any measurable objective for achieving gender diversity at workforce level. The Company has nonetheless always adopted a meritocratic approach and adhered to the principle of openness and fairness without any discrimination in respect of gender, disability, marital status, pregnancy, religion, nationality, social or economic class, rural or urban, political opinion, pathogen-carrier or sexuality.

Corporate Governance Committee

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

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

During the Year, the Corporate Governance Committee held one meeting, at which the members of the Corporate Governance Committee reviewed the Company's compliance with the Corporate Governance Code for the Year, reviewed and monitored the training and continuous professional development of the Directors, and reviewed the terms of reference of the Corporate Governance Committee. The attendance of each member is set out in the section headed "Board meetings and general meeting – Directors' attendance records of the Board and the Board Committees and general meeting" below.

Risk Management Committee

The Board established the Risk Management Committee on 21 October 2014 and the Risk Management Committee currently comprises one non-executive Director, namely Madam Ji Lingling and two executive Directors, namely Madam Zhou Ning and Mr. Chen Yuewu. Madam Zhou Ning is the chairlady of the Risk Management Committee. The terms of reference of the Risk Management Committee are published on the Company's website and the website of the Stock Exchange.

The primary duties of the Risk Management Committee are to review the Group's risk management policies and standards, the fundamental concepts and scope of compliance management, to provide comment on the overall target and basic policy of compliance and risk management, to monitor and evaluate the risk of the Group's business on sales to sanctioned countries and to take measures to protect the interests of the Group and the Shareholders. It is also responsible for reviewing and monitoring the training and continuous professional development of Directors and senior management.

During the Year, the Risk Management Committee held two meetings, at which the members of the Risk Management Committee reviewed the compliance by the Group with its undertakings to the Stock Exchange, further details of which are set out below, and reviewed, evaluated and confirmed the effectiveness of the risk management policy and system of the Company. It also reviewed the terms of reference of the Risk Management Committee, and the training and continuous professional development of the Directors. The attendance of each member is set out in the section headed "Board meetings and general meeting – Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

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

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

BOARD MEETINGS AND GENERAL MEETING

During the Year, a general meeting, being the 2023 annual general meeting, was held on 31 May 2023 ("2023 AGM"), and four Board meetings were held.

Prior notices convening the Board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company was responsible for keeping minutes for the Board meetings.

CORPORATE GOVERNANCE REPORT

In addition to regular Board meetings, the chairman of the Board met with the independent non-executive Directors without the presence of other Directors during the Year.

The Board is regularly provided with brief reports containing balanced and comprehensive evaluation on the Group's performance, status and prospects to keep it abreast of the Group's affairs and facilitate the Directors' performance of their obligations under the relevant requirements of the Listing Rules.

Directors' attendance records at meetings of the Board and the Board Committees and general meeting

Name of Director	Attendance/Number of Meetings Eligible to attend							2023 AGM
	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance	Risk Management		
					Committee meeting	Committee meeting		
Executive Directors:								
Mr. Ho Kwok Keung, Mars	4/4	N/A	1/1	N/A	1/1	N/A	1/1	
Mr. Ho Kin Hung	4/4	N/A	N/A	N/A	N/A	N/A	1/1	
Mr. Chen Yuewu	4/4	N/A	N/A	N/A	N/A	2/2	1/1	
Madam Zhou Ning	4/4	N/A	N/A	1/1	1/1	2/2	1/1	
Non-executive Director:								
Madam Ji Lingling	4/4	6/6	N/A	N/A	N/A	2/2	1/1	
Independent non-executive Directors:								
Mr. Cheung Lap Kei	4/4	6/6	1/1	1/1	N/A	N/A	1/1	
Madam Chiu Hoi Shan	4/4	6/6	1/1	1/1	1/1	N/A	0/1	
Mr. Leung Oi Kin	4/4	N/A	N/A	N/A	N/A	N/A	1/1	

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

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

Emoluments Band	For the year ended 31 December 2023
HK\$1,000,000 and below	4
HK\$1,000,000 to HK\$1,500,000	4
HK\$1,500,001 to HK\$2,000,000	0
HK\$2,000,001 and above	2
	10

Pursuant to Appendix D2 to the Listing Rules, the emoluments of the employees who are Directors and who are amongst the five highest paid individuals are set out in Note 11 to the Consolidated Financial Statements.

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

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

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

COMPANY SECRETARY

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

Madam Mak Yuk Kiu ("Madam Mak"), the representative of Uni-1, was appointed as the named company secretary of the Company ("Company Secretary").

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

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

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Responsibilities in respect of the Consolidated Financial Statements

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

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the Consolidated Financial Statements for the Year is set out in the section headed "Independent Auditor's Report" on pages 77 to 85 of this annual report.

For the Year, PricewaterhouseCoopers, the former Auditor, and its member firms of the same international network provided non-audit services mainly on interim review, advisory and taxation services. These non-audit services are engaged only as they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditor. The nature and ratio of annual fees to external auditor for non-audit services and for audit services in 2023 have been scrutinised by the Audit Committee.

During the Year, Moore, the incumbent Auditor, did not provide any non-audit services to the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The main responsibilities of each party are described as follows:

Board	<ul style="list-style-type: none">— Set up goals for risk management strategy, assess and determine the nature and degree of risk acceptable to achieve the strategic goals— Establish and maintain a proper and effective risk management and internal control systems— Review the effectiveness of the risk management and internal control systems— Review the effectiveness of the Group's processes for financial reporting and Listing Rules compliance
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CORPORATE GOVERNANCE REPORT

Audit Committee	<ul style="list-style-type: none">— Review the Company's financial controls and internal control system at least annually, and such review should cover all material controls, including financial, operational and compliance controls— Ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions, as well as those related to environmental, social and governance reporting— Discuss the internal control system with the Management to ensure that the Management has performed its duty to have an effective internal control system. The discussion covers adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions, as well as those related to environmental, social and governance reporting— Consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the Management's response to these findings— Consider the major findings of internal investigations and the Management's response
Risk Management	<ul style="list-style-type: none">— Oversee and review the adequacy and effectiveness of risk management procedures Committee that are already in place— Review the effectiveness of the Group's risk management system at least annually— Review the compliance reports and risk assessment reports that need to be reviewed by the Board, and to make recommendations on improvement of the Company's compliance and risk management— Review and provide comment on the overall target and basic policy of compliance and risk management— Allocate resources for the internal control and risk management systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives

CORPORATE GOVERNANCE REPORT

The Management

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

In addition, the Company has engaged external consultant to conduct annual review of the effectiveness of the risk management and internal control systems for the Year, to follow up on the internal control weaknesses identified in the last year and certain remedial actions, to report to the Board and the Board Committees and to develop risk assessment for the Year and 3-year internal audit plans.

The Management has provided a confirmation to the Audit Committee and the Risk Management Committee on the effectiveness of these systems for the Year. The Audit Committee and Risk Management Committee have recommended the Board for the approval of the confirmation by the Management.

The dynamics of the Group and the environment within which it operates are continually evolving together with its exposure to risk. The Group continues to review the adequacy of its risk management and internal control framework and looks for opportunities to make improvements and provide appropriate and additional resources when necessary.

Main Features of the Risk Management and Internal Control Systems

The Management will report to the Board from time to time as regards findings on the internal control weaknesses and provide remedial action plan to the Board. The Management will also follow-up on status of remediation of selected internal control weaknesses which have been reviewed and pointed out by the external consultant.

The Board has engaged an external consultant to conduct an internal control review and assessment for the Year. The external consultant has followed up on the findings on the internal control weaknesses in the last year and the remedial actions taken during the Year. The internal control assessment procedures conducted by the external consultant included a comprehensive system for reviewing and reporting information and findings to the Board and the Management, and to assess whether the material controls are sufficient and adequate for the Group.

CORPORATE GOVERNANCE REPORT

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations (COSO) framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

Control Environment	— the foundation for the other components of internal control and provides discipline and structure
Risk Assessment	— a dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed
Control Activities	— actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out
Information and Communication	— internal and external communication to provide the Group with the information communication needed to carry out day-to-day controls
Monitoring	— ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning

Process used to identify, evaluate and manage significant risks

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

Whistleblowing Policy

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

In addition, the Company establishes a whistleblowing policy, under which employees and those who deal with the Company are provided with ways to raise their concerns about possible improprieties in any matter relating to the Company without fear of reprisal or victimization, and in a responsible and effective manner. Written complaints can be lodged directly to the executive Directors. The executive Directors will then convene a meeting to decide whether and/or how to carry out any necessary investigation and, depending upon the circumstances, consider to nominate investigating officer or set up a special committee to investigate the matter independently. The whistleblowing policy is available on the website of the Company. The Board has reviewed the implementation of the whistleblowing policy and considered that it had been effectively implemented during the Year.

Anti-corruption Policy

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

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

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

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

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- All employees are required to strictly adhere to the employment terms regarding the management of confidential information.

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

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

CORPORATE GOVERNANCE REPORT

Internal audit function

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

INSURANCE ON DIRECTOR'S AND OFFICER'S LIABILITIES

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

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

As disclosed in the Prospectus, to protect the Group from any potential competition, Mr. Ho Kwok Keung, Mars, Standard Fortune Holdings Limited, Mr. Ho Kin Hung and True Worth Global Limited ("Covenantors") have given non-competition undertaking ("Non-competition Undertaking") in favour of the Company on 21 October 2014 pursuant to which each of the Covenantors has, among other matters, undertaken with the Company that each of the Covenantors and their respective associates (other than the Group) shall not engage in any business which will or may compete with the business currently and from time to time engaged by the Group. Details of the Non-competition Undertaking have been set out in the paragraph headed "Relationship with Controlling Shareholders – Non-competition Undertaking" of the Prospectus.

The Company has received the annual declaration from each of the Covenantors in respect of their respective compliance with the terms of the Non-competition Undertaking during the Year. The independent non-executive Directors, having reviewed the annual declarations and made reasonable enquiry, were satisfied that the Covenantors have complied with the terms of the Non-competition Undertaking during the Year.

REMUNERATION TO THE COMPANY'S AUDITORS

For the Year, the remuneration paid/payable to the Company's auditors, is set out below:

Services Rendered	For the year ended 31 December 2023 RMB'000
Statutory audit — Moore	2,780
Non-audit services — PricewaterhouseCoopers (Note)	2,681
Total	5,461

Note: The non-audit services provided by PricewaterhouseCoopers during the Year mainly include interim review, advisory and tax services.

SHAREHOLDERS' RIGHTS

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

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

DIVIDEND POLICY

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

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

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

The amended and restated memorandum and articles of association of the Company was adopted by a special resolution passed by the Shareholders at the 2022 annual general meeting of the Company held on 3 June 2022 and is available on the websites of the Company and the Stock Exchange. There was no change in the Company's constitutional documents during the Year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company adopted its shareholders communication policy ("Shareholders' Communication Policy") in October 2014 with the objective of providing the Shareholders with information about the Company and enabling them to engage actively with the Company and exercise their rights as Shareholders in an informed manner. The Shareholders' Communication Policy was amended on 27 September 2022 and is made available on the Company's website.

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

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

The Board has reviewed the Shareholders' Communication Policy in light of the above and considered that it had been effectively implemented during the Year.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

26 March 2024

INDEPENDENT AUDITOR'S REPORT



Moore CPA Limited

801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moore.hk

會計師事務所有限公司
大華馬施雲

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

OPINION

We have audited the consolidated financial statements of Austar Lifesciences Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 86 to 202, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board (the "**IAASB**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (the "**Code**") issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of revenue from integrated engineering solutions contracts</p> <p>We identified the recognition of revenue over time arising from the Group's integrated engineering solutions contracts, particularly from (i) liquid and bioprocess system, (ii) clean room and automation control and monitoring system, and (iii) powder and solid system, as a key audit matter due to the use of estimates by management assessment in determining the contract revenue for each engineering solutions contract in progress.</p> <p>During the year ended 31 December 2023, revenue of RMB1,225,789,000 was recognised from these three major integrated engineering solutions contracts.</p> <p>The Group recognised contract revenue of engineering service contracts by reference to the progress towards complete satisfaction of a performance obligation at the end of the reporting period, as set out in Notes 3 and 4 to the consolidated financial statements. The recognition of revenue therefore relies on the management's estimation of the progress and outcome of the project, which involves the exercise of significant management estimation, particularly in estimating the budgeted engineering service costs, which are prepared by the management of the Group on the basis of agreements, quotations or other correspondences from time to time provided by the subcontractors, suppliers or vendors involved and the experience of the management.</p>	<p>Our procedures in relation to recognition of revenue from integrated engineering solutions contracts included:</p> <ul style="list-style-type: none"> • Understanding key controls on how management estimates the contract revenue, contract cost and gross profit margin, and determination of completion status of the engineering solutions contracts; • Checking the accuracy of the contract sum to signed contract and/or other relevant correspondences (and variation orders, if any), on a sample basis; • Discussing with the management to understand the status of completion of significant projects during the year, on a sample basis, to obtain explanations for fluctuation in gross profit margin and changes in the budgeted cost, if any; • Evaluating the reasonableness of the estimated total budgeted costs of significant projects by checking against agreements, price quotations or other correspondences provided by subcontractors, suppliers or vendors involved and rate of labour costs, on a sample basis;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from integrated engineering solutions contracts (Continued)	
In order to keep the budget accurate and up-to-date, the management of the Group conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred and changes in certain circumstances of the projects.	<ul style="list-style-type: none">Evaluating the reasonableness of the estimated profit margins of significant projects, on a sample basis, taking into account of the complexity and duration of the projects and margins of similar completed projects;Evaluating the accuracy of costs incurred to date and stage of completion by checking the supporting documents including breakdown of the costs incurred, subcontractors, suppliers or vendors' correspondences or documents issued before and subsequent to year end date to evaluate progress of respective projects, on a sample basis; andAssessing the accuracy of revenue recognised for the year by recalculating the revenue based on the percentage of completion of the contract by using the input method.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of expected credit losses ("ECLs") of trade receivables and contract assets</p> <p>As at 31 December 2023, the gross amounts of trade receivables and contract assets are approximately RMB349,258,000 and RMB662,881,000, respectively, where cumulative allowance for ECLs totalling RMB69,528,000 was made for trade receivables and contract assets.</p> <p>Allowances for ECLs on trade receivables and contract assets were made based on an assessment of the ECLs, which include an assessment of the risk of default and the expected credit loss rate.</p> <p>Trade receivables and contract assets relating to customers with known financial difficulties or significant doubt on collection of trade receivables and contract assets are assessed individually and provided for ECLs. ECLs are also estimated by grouping the remaining trade receivables and contract assets based on shared credit risk characteristics and collectively assessed for likelihood of recovery by taking into account of their historical credit losses, as well as the prevailing market conditions. Both current economic conditions and forward looking information were also taken into consideration by management of the Group in the estimation such as changes in macroeconomic conditions and industry trends, where appropriate.</p>	<p>Our procedures in relation to assessment of ECLs of trade receivables and contract assets included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of management of the Group's internal control and assessment process for the estimation of allowances for ECLs on trade receivables and contract assets; • Assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud; • Evaluating, and testing key controls related to assessment of the ECLs of trade receivables and contract assets performed by management of the Group; • Evaluating the competence, capabilities and objectivity of the external valuation specialists appointed by management of the Group;

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit losses ("ECLs") of trade receivables and contract assets (Continued)	
We focused on auditing the assessment of ECLs of trade receivables and contract assets prepared by management of the Group because the balances of trade receivables and contract assets were significant, and the estimation of impairment provisions was subject to high degree of estimation uncertainty. The inherent risk in relation to the allowances for ECLs on trade receivables and contract assets is considered significant due to complexity of the model and subjectivity of assumptions used. Therefore, we have identified the ECLs of trade receivables and contract assets as a key audit matter.	<ul style="list-style-type: none"> • For ECLs specifically provided against individual customers, <ul style="list-style-type: none"> – discussing with management of the Group to understand the detailed circumstances and basis of provision on specific customers, such as credit-related information, and historical repayment record; and – obtaining management of the Group's assessments and reviewing the evidence available to us, including background information of customers, past transaction history, historical repayment record and forward-looking information.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit losses ("ECLs") of trade receivables and contract assets (Continued)	
	<ul style="list-style-type: none">• For ECLs based on risk characteristics provided for trade receivables and contract assets,<ul style="list-style-type: none">– discussing with management of the Group to evaluate the appropriateness of the model of estimating lifetime ECLs used by management of the Group, which include historical settlement record and ageing profile, with the assistance of our internal valuation specialists;– evaluating adjustment to the historical loss rates based on current economic conditions and forward-looking information, with the assistance of our internal valuation specialists;– testing, on sample basis, the accuracy of ageing analysis of trade receivables prepared by management of the Group; and– checking the arithmetic calculations of the ECLs.

INDEPENDENT AUDITOR'S REPORT

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2023.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Moore CPA Limited

Certified Public Accountants

Registered Public Interest Entity Auditors

Lai Hung Wai

Practising Certificate Number: P06995

Hong Kong, 26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
Continuing operations			
Revenue	4	1,763,734	2,156,869
Cost of sales	4, 5	(1,427,684)	(1,668,073)
Gross profit		336,050	488,796
Selling and marketing expenses	5	(167,323)	(177,091)
Administrative expenses	5	(133,666)	(128,843)
Net impairment (losses)/gains on financial assets and contract assets	34.1(b)	(31,893)	3,212
Research and development expenses	5	(55,332)	(70,163)
Other income	6	11,706	11,163
Other gains/(losses) — net	7	10,464	(10,702)
Operating (loss)/profit		(29,994)	116,372
Finance income	8	3,290	2,273
Finance costs	8	(14,437)	(8,649)
Finance costs — net		(11,147)	(6,376)
Share of net profit of investments accounted for using the equity method	17	6,731	9,536
(Loss)/profit before income tax		(34,410)	119,532
Income tax expense	9	(379)	(18,893)
(Loss)/profit for the year from continuing operations		(34,789)	100,639
Discontinued operations			
Loss for the period/year from discontinued operations	10	(116,514)	(32,895)
(Loss)/profit for the year		(151,303)	67,744

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/profit for year attributable to owners of the Company			
— from continuing operations		(32,607)	104,237
— from discontinued operations		(80,866)	(16,776)
		(113,473)	87,461
(Loss)/profit for the year attributable to non-controlling interests			
— from continuing operations		(2,182)	(3,598)
— from discontinued operations		(35,648)	(16,119)
		(37,830)	(19,717)
		(151,303)	67,744
(LOSS)/EARNINGS PER SHARE	13		
From continuing and discontinued operations			
— Basic and diluted (RMB)		(0.22)	0.17
From continuing operations			
— Basic and diluted (RMB)		(0.06)	0.20

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/profit for the year		(151,303)	67,744
Other comprehensive (expense)/income			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences on translation from functional currency to presentation currency		6,253	38,068
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(22,893)	(10,954)
Reclassification of cumulative translation reserve upon discontinued operations of foreign operations		3,182	—
Share of other comprehensive income/(expense) of investments accounted for using the equity method	17	257	(515)
		(19,454)	(11,469)
Other comprehensive (expense)/income for the year, net of tax		(13,201)	26,599
Total comprehensive (expense)/income for the year		(164,504)	94,343
Total comprehensive (expense)/income attributable to:			
— owners of the Company		(123,931)	114,965
— non-controlling interests		(40,573)	(20,622)
		(164,504)	94,343
Total comprehensive (expense)/income attributable to owners of the Company:			
— from continuing operations		(43,065)	132,682
— from discontinued operations		(80,866)	(17,717)
		(123,931)	114,965

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	320,243	278,468
Right-of-use assets	15	123,609	155,141
Intangible assets	16	42,471	55,865
Deferred income tax assets	30	16,720	12,783
Investments accounted for using the equity method	17	82,110	85,499
Total non-current assets		585,153	587,756
Current assets			
Inventories	18	243,160	388,106
Contract assets	19	642,906	585,364
Trade and notes receivables	20	351,783	416,513
Prepayments and other receivables	21	117,237	159,039
Pledged bank deposits	22	36,378	103,856
Term deposits with initial terms of over three months	22	10,000	14,505
Cash and cash equivalents	22	163,765	133,624
Assets classified as held for sale	23	1,565,229 8,590	1,801,007 —
Total current assets		1,573,819	1,801,007
Total assets		2,158,972	2,388,763
EQUITY			
Equity attributable to the owners of the Company			
Share capital	24	4,071	4,071
Reserves		383,648	394,106
Retained earnings		385,294	498,767
Non-controlling interests		773,013 2,460	896,944 (13,363)
Total equity		775,473	883,581

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	15	52,138	62,874
Long-term borrowings	26	110,848	40,067
Deferred income	28	341	544
Deferred income tax liabilities	30	37,843	37,740
Other financial liabilities	29	4,642	4,192
Total non-current liabilities		205,812	145,417
Current liabilities			
Trade and other payables	25	663,436	739,603
Contract liabilities	19	180,190	382,707
Current income tax liabilities		848	5,150
Short-term borrowings	27	255,313	172,254
Current portion of long-term borrowings	26	64,520	45,670
Lease liabilities	15	13,380	14,381
Total current liabilities		1,177,687	1,359,765
Total liabilities		1,383,499	1,505,182
Total equity and liabilities		2,158,972	2,388,763

The consolidated financial statements on pages 86 to 202 were approved and authorised for issue by the Board of Directors on 26 March 2024 and were signed on its behalf by:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

Note	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022	4,071	314,009	30,150	411,306	27,048	786,584	1,836	788,420
Comprehensive income								
Profit/(loss) for the year	—	—	—	87,461	—	87,461	(19,717)	67,744
Other comprehensive income/(expense)								
Exchange differences on translation from functional currency to presentation currency	—	—	—	—	38,068	38,068	—	38,068
Exchange differences arising on translation of foreign operations	—	—	—	—	(10,049)	(10,049)	(905)	(10,954)
Share of other comprehensive expense of investments accounted for using the equity method	17	—	—	—	—	(515)	(515)	—
Total comprehensive income/(expense)	—	—	—	87,461	27,504	114,965	(20,622)	94,343
Transactions with owners, recognised directly in equity								
Acquisition of partial interest of a subsidiary from a non-controlling shareholder	—	—	(549)	—	—	(549)	307	(242)
Capital contributions from non-controlling interests	—	—	—	—	—	—	5,116	5,116
Recognition of put option liabilities from non-controlling interests	—	—	(4,056)	—	—	(4,056)	—	(4,056)
Total transactions with owners, recognised directly in equity	—	—	(4,605)	—	—	(4,605)	5,423	818
Balance at 31 December 2022	4,071	314,009	25,545	498,767	54,552	896,944	(13,363)	883,581

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Notes	Attributable to owners of the Company						Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Subtotal RMB'000		
Balance at 1 January 2023		4,071	314,009	25,545	498,767	54,552	896,944	(13,363)	883,581
Comprehensive expense									
Loss for the year		—	—	—	(113,473)	—	(113,473)	(37,830)	(151,303)
Other comprehensive (expense)/income									
Exchange differences on translation from functional currency to presentation currency		—	—	—	—	6,253	6,253	—	6,253
Exchange differences arising on translation of foreign operations		—	—	—	—	(20,150)	(20,150)	(2,743)	(22,893)
Reclassification of cumulative translation reserve upon discontinued operations of foreign operations		—	—	—	—	3,182	3,182	—	3,182
Share of other comprehensive income of investments accounted for using the equity method	17	—	—	—	—	257	257	—	257
Total comprehensive expense		—	—	—	(113,473)	(10,458)	(123,931)	(40,573)	(164,504)
Transactions with owners, recognised directly in equity									
Deconsolidation of net liabilities of discontinued operations attributable to non-controlling interests	10	—	—	—	—	—	—	56,396	56,396
Total transactions with owners, recognised directly in equity		—	—	—	—	—	—	56,396	56,396
Balance at 31 December 2023		4,071	314,009	25,545	385,294	44,094	773,013	2,460	775,473

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
Cash flows from operating activities			
Cash used in operations	35(a)	(70,758)	(25,716)
Income taxes paid		(7,398)	(15,689)
Interest received		3,290	2,273
		(74,866)	(39,132)
Discontinued operations		12,217	1,206
Net cash used in operating activities		(62,649)	(37,926)
Cash flows from investing activities			
Increase in term deposits with initial terms of over three months		(10,000)	(14,505)
Redemption of term deposits with initial terms of over three months		14,505	21,294
Dividend received from a joint venture	17	4,940	5,322
Payment for property, plant and equipment		(69,235)	(117,109)
Payment for intangible assets		(1,706)	(19,333)
Proceeds from disposal of property, plant and equipment		171	51
Proceeds from disposal of land use right classified as right-of-use assets		12,389	—
Net cash outflows on discontinued operations		(5,531)	—
Investment in an associate		—	(39,615)
Proceeds from disposal of a joint venture		—	10,970
		(54,467)	(152,925)
Discontinued operations		—	(218)
Net cash used in investing activities		(54,467)	(153,143)
Cash flows from financing activities			
Interest paid		(13,862)	(9,360)
New borrowings raised	35(b)	442,361	246,878
Repayments of borrowings	35(b)	(261,555)	(98,315)
Principal elements of lease payments	35(b)	(10,202)	(18,074)
Payment for the acquisition of partial interest of a subsidiary from a non-controlling shareholder		—	(242)
Capital contributions from non-controlling interests		—	5,116
		156,742	126,003
Discontinued operations		(9,627)	(702)
Net cash from financing activities		147,115	125,301
Net increase/(decrease) in cash and cash equivalents		29,999	(65,768)
Cash and cash equivalents at beginning of year	22	133,624	198,447
Exchange gains on cash and cash equivalents		142	945
Cash and cash equivalents at end of year	22	163,765	133,624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 January 2014 as an exempted company with limited liability. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in providing integrated engineering solutions to pharmaceutical manufacturers and research institutes, as well as manufacturing and distribution of pharmaceutical equipments and consumables in the People's Republic of China ("PRC"). 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", also the "**Controlling Shareholder**"), Chairman of the Board 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**") since 7 November 2014.

The consolidated financial statements are presented in thousands of Renminbi Yuan ("**RMB**"), unless otherwise stated, and are approved for issue by the Board on 26 March 2024.

Certain comparative figures have been re-presented to conform with current year's presentation. These reclassifications have no effect on financial position, results for the year or cash flows of the Group.

As disclosed in Note 10, H+E Pharma GmbH ("**H+E Pharma**") and S-Tec GmbH ("**S-Tec**") (collectively referred to as the "**Germany Operations**"), the then indirect non-wholly-owned subsidiaries of the Company, filed for insolvency under self-administration (debtor-in-possession) proceedings in Germany on 3 August 2023. Details of which were set out in the Company's announcements dated 3 August 2023 and 29 August 2023.

As the business operations of Germany Operations were considered as a separate geographical area of operations, and it was a component of an entity comprises operations and cash flows that was clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group, so it was considered and accounted for as discontinued operations ("**Discontinued Operations**") for the year ended 31 December 2023. The directors of the Company also considered that separately highlighting the results of the Discontinued Operations provides clear information that is relevant in assessing the ongoing ability of the Group to generate cash flows.

Accordingly, the carrying amount related to the net liabilities of the Discontinued Operations was deconsolidated from the consolidated financial statements of the Group as of 3 August 2023. The results, other comprehensive income and cash flows of the Discontinued Operations were separately presented in the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2023, respectively. The comparative information including the financial performance and cash flows from the Discontinued Operations has been re-presented and restated to conform to the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2.2 Application of new and amendments to IFRSs and changes in other accounting policies

(a) *New and amendments to IFRSs that are mandatorily effective for the current year*

In the current year, the Group has applied the following new and amendments to IFRSs issued by IASB for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

The application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.2 Application of new and amendments to IFRSs and changes in other accounting policies

(Continued)

(a) *New and amendments to IFRSs that are mandatorily effective for the current year*

(Continued)

(i) *Impacts on application of Amendments to IAS 8 "Definition of Accounting Estimates"*

The Group has applied the amendments for the first time in the current year. The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current year had no material impact on the consolidated financial statements.

(ii) *Impacts on application of Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"*

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;
- (ii) the Group also, as at 1 January 2022, recognised a deferred tax asset of RMB5,692,000 (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for RMB5,692,000 all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.2 Application of new and amendments to IFRSs and changes in other accounting policies

(Continued)

(a) *New and amendments to IFRSs that are mandatorily effective for the current year*

(Continued)

(iii) *Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies"*

The Group has applied the amendments for the first time in the current year. IAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 "Making Materiality Judgments" (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.2 Application of new and amendments to IFRSs and changes in other accounting policies

(Continued)

(iv) *Change in accounting policy as a result of application of the Hong Kong Institute of Certified Public Accountants ("HKICPA") guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") — Long Service Payment ("LSP") offsetting mechanism in Hong Kong*

The Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "**Abolition**"). The Abolition will officially take effect on 1 May 2025 (the "**Transition Date**").

In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.2 Application of new and amendments to IFRSs and changes in other accounting policies

(Continued)

(a) *New and amendments to IFRSs that are mandatorily effective for the current year*

(Continued)

(iv) *Change in accounting policy as a result of application of the Hong Kong Institute of Certified Public Accountants ("HKICPA") guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") — Long Service Payment ("LSP") offsetting mechanism in Hong Kong*

(Continued)

The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of IAS 19 to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA's guidance, as a result of the Abolition, these contributions are no longer considered "linked solely to the employee's service in that period" since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as "independent of the number of years of service" and the practical expedient in paragraph 93(b) of IAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of IAS 19. Accordingly, the Group has recognised a cumulative catch-up adjustment in profit or loss for the service cost, interest expense and remeasurement effect from changes in actuarial assumptions for the year ended 31 December 2022, with corresponding adjustment to the LSP obligation. The cumulative catch-up adjustment is calculated as the difference at the enactment date (16 June 2022) between the carrying amount of the LSP liability calculated under paragraph 93(b) of IAS 19 before the Abolition and the carrying amount of the LSP liability calculated under paragraph 93(a) of IAS 19 after the Abolition.

This change in accounting policy did not have any impact on the opening balance of equity at 1 January 2022, and the cash flows amounts for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.2 Application of new and amendments to IFRSs and changes in other accounting policies

(Continued)

(b) Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants ²
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ²
Amendments to IAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.3 Principles of consolidation and equity accounting

(a) *Subsidiaries*

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost (see (d) below). Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

(c) *Joint arrangements*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(d) *Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

(e) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.4 Business combinations

(a) *Business combinations under common control*

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

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amounts of the net assets obtained and the carrying amount of the consideration paid is recorded in reserve. All direct transaction cost attributable to the business combination is recorded in profit or loss in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

(b) *Business combinations not under common control*

The cost of a combination is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquired business, the equity interests issued by the Group, fair value of any assets or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.4 Business combinations (Continued)

(b) *Business combinations not under common control* (Continued)

Acquisition-related costs are expensed as incurred.

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired as a bargain purchase, the difference is recognised directly in profit or loss.

2.5 Separate financial statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer, vice presidents and directors of the Company.

2.7 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the **functional currency**"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency, and the Company's functional currency is Hong Kong dollar (HK\$).

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within other gains/(losses).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.7 Foreign currency translation (Continued)

(c) Group companies

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

- (i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- (ii) income and expenses for each consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.7 Foreign currency translation (Continued)

(d) *Disposal of foreign operation and partial disposal*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.8 Property, plant and equipment

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

Construction in progress is stated at cost, including the costs of construction, machinery and other expenditures for the purpose of preparing the construction-in-progress for its intended use and borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction in progress is not depreciated until the asset is completed and ready for its intended use.

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

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

	Estimated useful lives
Buildings	20 years
Machinery	5-10 years
Vehicles	5 years
Others	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains' in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.9 Intangible assets

Intangible assets mainly represent computer software, goodwill, trademarks and know-how.

(a) *Computer software*

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years.

(b) *Goodwill*

Goodwill is measured as described in Note 2.3(b). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(c) *Trademarks and Know-How*

Trademarks and know-how acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and know-how are amortised over their estimated useful lives of 10 years using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

When determining the length of useful life of trademarks and know-how, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.10 Research and development

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

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset and use or sell it;
- (iii) there is an ability to use or sell the intangible asset;
- (iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

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

2.11 Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.12 Financial assets

2.12.1 Classification

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

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

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

2.12.2 Recognition and derecognition

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

2.12.3 Measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.12 Financial assets (Continued)

2.12.3 Measurement (Continued)

Debt instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.12 Financial assets (Continued)

2.12.4 Impairment

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

For trade receivables and contract assets, the Group applies the simplified approach to measure ECLs, which uses a lifetime ECL allowance to be recognised from initial recognition of all trade receivables, further details are set out in Note 34.1.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.14 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9 "Financial Instruments" ("IFRS 9") and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 "Revenue from Contracts with Customers".

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the moving average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Trade receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. For further information about the Group's accounting for trade receivables and a description of the Group's impairment policies are set out in Note 20 and Note 34.1 respectively.

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that they are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.18 Share capital

Ordinary shares are classified as equity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.20 Borrowings

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

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

2.21 Borrowing costs

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

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.22 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.22 Current and deferred income tax (Continued)

(b) *Deferred income tax* (Continued)

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

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

(c) *Offsetting*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.23 Employee benefits

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

Pension and social obligations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.24 Provisions

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

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

When assessing whether a contract is onerous or loss-making, the Group includes costs that relate directly to the contract, consisting of both the incremental costs (to specify, e.g. direct labour and materials) and an allocation of other costs (to specify, e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract) that relate directly to fulfilling contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.25 Revenue recognition

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

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

(a) *Revenue from integrated engineering solutions contracts*

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

(b) *Revenue from sale of goods*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.25 Revenue recognition (Continued)

(c) *Revenue from services rendered*

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

2.26 Government grants

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

Government grants related to costs are deferred and recognised in the consolidated statement of profit or loss over the periods necessary to match them with the related costs that they are intended to compensate.

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

2.27 Interest income

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

2.28 Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.29 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principle and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.29 Leases (Continued)

Right-of-use assets, include land use rights, are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group presents right-of-use assets and lease liabilities as a separate line item on the consolidated statement of financial position respectively.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

2.30 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of IFRS 9, investment properties, which continue to be measured in accordance with the accounting policies as set out in respective sections.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

2.31 Discontinued operations

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with IFRS 5, if earlier. It also occurs when the component is abandoned.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Impairment of trade receivables and contract assets

The loss allowances for trade receivables and contract assets are based on assumptions about risk of default and expected credit loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 34.

As at 31 December 2023, the gross amounts of trade receivables and contract assets are RMB349,258,000 and RMB662,881,000 (2022: RMB413,202,000 and RMB591,660,000), respectively, where cumulative allowance for ECLs totalling RMB69,528,000 (2022: RMB37,888,000) was made for trade receivables and contract assets.

(b) Revenue from integrated engineering solutions contracts recognised over time

The Group recognised revenue from integrated engineering solutions contracts, particularly from (i) liquid and bioprocess system, (ii) clean room and automation control and monitoring system, and (iii) powder and solid system, over time by reference to the progress towards complete satisfaction of performance obligations. It requires estimations by management of the Group because of the nature of the performance obligations in contracts with customers, customers control the asset as it is created and enhanced by the Group or receive the benefits of the Group's performance as the Group performs and simultaneously consume those benefits over the period of the contract. Management of the Group regularly reviews the proportion of contract costs incurred for work performed to date to estimated stage of completion of the performance obligations of specific transactions. If circumstances arise that may change the original estimates of transaction price, costs or extent of performance obligation satisfaction, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by the management of the Group.

During the year ended 31 December 2023, revenue of RMB1,225,789,000 (2022: RMB1,528,433,000) was recognised from these three major integrated engineering solutions contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(c) Write-down of inventories

Inventories are reviewed for write-down whenever events or changes in circumstances cause their carrying amounts to exceed their net realisable value. The determination of net realisable value of the inventories requires the use of estimates by reference to the subsequent selling costs, estimated costs to completion and costs necessary to make the sale. The Group's management determined estimated net realisable value of inventories.

During the year ended 31 December 2023, write-down of inventories of RMB14,161,000 (2022: RMB4,484,000) was charged to profit or loss. As at 31 December 2023, the carrying amount of the Group's inventories is RMB243,160,000 (2022: RMB388,106,000).

(d) Income taxes and deferred income taxation

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

4. SEGMENT INFORMATION

The CODMs have been identified as the Chief Executive Officer, the vice presidents and the directors of the Company who review the Group's internal reports in order to assess performance and allocate resources.

The CODM considers the business primarily from a product and service perspective, which mainly includes six reportable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2023 are as follows:

Continuing operations:

	Clean Room and Automation	Powder and Solid	GMP Compliance Service	Life Science Consumables	Distribution and Agency of Pharmaceutical Equipment	Total
	Liquid and Bioprocess System RMB'000	Control and Monitoring System RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue and results						
Segment revenue	694,759	567,151	290,091	93,295	321,778	72,200
Inter-segment revenue	(83,467)	(125,942)	(38,297)	(3,171)	(18,385)	(6,278)
Revenue*	611,292	441,209	251,794	90,124	303,393	65,922
Recognised at a point in time	47,193	24,784	6,529	1,062	303,393	41,083
Recognised over time	564,099	416,425	245,265	89,062	—	24,839
Cost of sales	(529,657)	(362,781)	(234,008)	(51,341)	(207,738)	(42,159)
Segment results						
Gross profit	81,635	78,428	17,786	38,783	95,655	23,763
Other segment items						
Amortisation	2,774	2,776	505	228	1,093	190
Depreciation	15,065	9,011	4,743	1,844	5,951	1,419
Provision/(reversal of) for impairment losses on financial assets and contract assets	375	23,232	5,988	2,399	(88)	(13)
Write-down/(reversal of write-down) of inventories	7,094	(3,038)	—	—	10,105	—
Share of net profit of investments accounted for using the equity method	6,385	346	—	—	—	6,731
Finance costs	7,586	1,935	2,088	810	1,349	669
Interest income	(1,663)	(1,056)	(376)	(48)	(117)	(30)
Loss on disposal of property, plant and equipment	355	312	—	—	—	183
						850

* The revenue from customers did not contribute over 10% of the total revenue of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2022 are as follows:

Continuing operations (restated):

	Clean Room and Automation	Powder and Solid	GMP Compliance	Life Science	Consumables	Distribution and Agency of Pharmaceutical Equipment	Total
	Liquid and Bioprocess System	Control and Monitoring System	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue and results							
Segment revenue	962,062	678,636	293,034	98,858	391,805	39,290	2,463,685
Inter-segment revenue	(83,496)	(164,566)	(47,239)	(4,509)	(3,541)	(3,465)	(306,816)
Revenue*	878,566	514,070	245,795	94,349	388,264	35,825	2,156,869
Recognised at a point in time	73,821	25,564	10,613	7,205	388,264	25,354	530,821
Recognised over time	804,745	488,506	235,182	87,144	—	10,471	1,626,048
Cost of sales	(738,062)	(421,313)	(194,093)	(51,321)	(241,596)	(21,688)	(1,668,073)
Segment results							
Gross profit	140,504	92,757	51,702	43,028	146,668	14,137	488,796
Other segment items							
Amortisation	3,058	306	200	58	891	21	4,534
Depreciation	12,047	8,519	4,253	1,366	5,777	513	32,475
(Reversal of)/provision for impairment losses on financial assets and contract assets	(2,603)	(2,252)	627	188	732	96	(3,212)
Write-down/(reversal of write-down) of inventories	698	(318)	(383)	(132)	4,625	(6)	4,484
Share of net profit of investments accounted for using the equity method	9,069	467	—	—	—	—	9,536
Finance costs	4,276	899	1,501	426	1,210	337	8,649
Interest income	(912)	(592)	(536)	(23)	(184)	(26)	(2,273)
Loss on disposal of property, plant and equipment	297	—	—	—	—	—	297

* The revenue from customers did not contribute over 10% of the total revenue of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SEGMENT INFORMATION (Continued)

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

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Liquid and Bioprocess System	81,635	140,504
Clean Room and Automation Control and Monitoring System	78,428	92,757
Powder and Solid System	17,786	51,702
GMP Compliance Service	38,783	43,028
Life Science Consumables	95,655	146,668
Distribution and Agency of Pharmaceutical Equipment	23,763	14,137
Total gross profit for reportable segments	336,050	488,796
 Selling and marketing expenses	 (167,323)	 (177,091)
Administrative expenses	(133,666)	(128,843)
Net impairment (losses)/gains on financial assets and contract assets	(31,893)	3,212
Research and development expenses	(55,332)	(70,163)
Other income	11,706	11,163
Other gains/(losses) — net	10,464	(10,702)
Finance costs — net	(11,147)	(6,376)
Share of net profit of investments accounted for using the equity method	6,731	9,536
 (Loss)/profit before income tax from continuing operations	 (34,410)	 119,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2023 and 2022 are as follows:

	As at 31 December 2023		As at 31 December 2022	
	Total assets RMB'000	Investments accounted for using the equity method RMB'000	Total assets RMB'000	Investments accounted for using the equity method RMB'000
Liquid and Bioprocess System	855,151	62,262	1,034,779	60,737
Clean Room and Automation				
Control and Monitoring System	516,136	19,848	429,886	24,762
Powder and Solid System	223,263	—	140,264	—
GMP Compliance Service	73,487	—	48,626	—
Life Science Consumables	226,352	—	277,240	—
Distribution and Agency of Pharmaceutical Equipment	19,649	—	9,866	—
Total segment assets	1,914,038	82,110	1,940,661	85,499
Unallocated:				
Deferred income tax assets	16,720		12,783	
Assets classified as held for sale	8,590		—	
Headquarter assets	219,624		435,319	
Total assets	2,158,972		2,388,763	

All assets are allocated to operating segments other than deferred income tax assets, assets classified as held for sale and headquarter assets. Assets used jointly by operating segments are allocated on the basis of the revenue earned by individual operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SEGMENT INFORMATION (Continued)

The Group's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

	2023 Total liabilities RMB'000	2022 Total liabilities RMB'000
Liquid and Bioprocess System	373,442	510,217
Clean Room and Automation Control and Monitoring System	195,566	241,315
Powder and Solid System	128,555	118,626
GMP Compliance Service	45,200	44,224
Life Science Consumables	87,250	142,989
Distribution and Agency of Pharmaceutical Equipment	12,031	23,310
Total segment liabilities	842,044	1,080,681
Unallocated:		
Deferred income tax liabilities	37,843	37,740
Short-term borrowings	255,313	172,254
Long-term borrowings	110,848	40,067
Current portion of long-term borrowings	64,520	45,670
Headquarter liabilities	72,931	128,770
Total liabilities	1,383,499	1,505,182

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SEGMENT INFORMATION (Continued)

Geographical information

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

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Revenue		
Mainland China	1,681,099	2,073,560
Other locations	82,635	83,309
	1,763,734	2,156,869
	2023 RMB'000	2022 RMB'000
Non-current assets other than financial assets and deferred income tax assets		
Mainland China	524,375	501,499
Other locations	44,058	73,474
	568,433	574,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. EXPENSES BY NATURE

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Raw materials used	924,789	1,209,541
On-site subcontract fee	140,048	166,573
Staff costs, including directors' emoluments (Note 11)	459,799	457,530
Depreciation		
— Property, plant and equipment (Note 14)	19,795	12,938
— Right-of-use assets (Note 15)	18,238	19,537
Amortisation (Note 16)	7,566	4,534
Travel expenses	39,069	30,486
Freight and port charges	28,533	28,347
Professional fee	17,092	22,659
Technical service fee	26,814	12,982
Sales tax and surcharges	8,632	11,365
Warranty provision	15,496	11,060
Office expenses	11,650	7,862
Business entertainment expenses	8,597	7,290
Write-down of inventories	14,161	4,484
Promotion expenses	8,599	5,831
Auditor's remuneration		
— Audit service		
— Moore CPA Limited	2,780	—
— PricewaterhouseCoopers	—	3,167
— Other auditors	642	448
— Non audit service		
— PricewaterhouseCoopers	2,681	85
— Other auditors	—	29
Repair and maintenance	2,235	1,941
Human resources management expenses	1,372	1,633
Labour productive cost	645	1,451
Bank charges	1,612	1,224
Communication expenses	1,572	1,035
Renovation expenses	2,272	490
Convention service expenses	230	437
Property management fee	183	59
Other operating expenses	18,903	19,152
	1,784,005	2,044,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. OTHER INCOME

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Government grants (Note)		
— In relation to expenditure (Note (a))	8,360	9,891
— In relation to deferred income (Notes (b) and 28)	2,897	853
Rental income (Note 36 (b)(iv))	449	419
	11,706	11,163

Notes:

- (a) There are no unfulfilled conditions or other contingencies attaching to these grants.
- (b) The government grants have fulfilled the conditions and contingencies attaching to them during the year ended 31 December 2023 and was recognised as other income.

7. OTHER GAINS/(LOSSES) — NET

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Losses on disposal of property, plant and equipment	(850)	(297)
Gain on disposal of land use right classified as right-of-use asset	4,954	—
Exchange gains/(losses), net	7,116	(6,117)
Others	(756)	(4,288)
	10,464	(10,702)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8. FINANCE COSTS — NET

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Finance costs		
— Bank borrowings	(10,916)	(6,502)
— Lease liabilities (Note 15(b))	(3,045)	(3,092)
— Other financial liabilities	(185)	—
Exchange (losses)/gains, net	(291)	945
	(14,437)	(8,649)
Finance income		
— Bank deposits	3,290	2,273
	3,290	2,273
	(11,147)	(6,376)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. INCOME TAX EXPENSE

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Current income tax expense		
— PRC corporate income tax	3,627	13,518
— Hong Kong and overseas profits tax	338	—
	3,965	13,518
(Over)/underprovision in prior years		
— PRC corporate income tax	(853)	2,170
— Hong Kong and overseas profits tax	(16)	—
	(869)	2,170
Deferred income tax (credit)/expense (Note 30)	(2,717)	3,205
	379	18,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. INCOME TAX EXPENSE (Continued)

Continuing operations: (Continued)

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

The Group's subsidiaries incorporated in the BVI under the International Business Companies Act or, as the case maybe, BVI Business Companies Act 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 (2022: 16.5%), except for a subsidiary of the Group in Hong Kong which is a qualifying entity applicable to the two-tiered profits tax rates. Under the two-tiered profits tax rates regime, the profits tax rate for the first HK\$2 million of assessable profits will be lowered to 8.25%, and assessable profits above HK\$2 million will continue to be subject to the rate of 16.5%.

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Ltd. ("**Shanghai Austar**"), Austar Pharmaceutical Equipment (Shijiazhuang) Ltd. ("**Austar SJZ**"), and Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2015 and renewed its "High and New Technology Enterprise" qualification for another three years in 2021. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. INCOME TAX EXPENSE (Continued)

Continuing operations: (Continued)

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

	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/profit before income tax	(34,410)	119,532
Tax expense calculated at applicable statutory tax rate	(8,701)	29,125
Impact of preferential corporate income tax rates	(3,045)	(15,571)
Tax effect of income not taxable for tax purpose	(198)	(447)
Tax effect of expenses not deductible for tax purpose	5,725	375
Tax effect of tax losses not recognised as deferred income tax assets	13,304	13,321
Tax effect of other deductible temporary differences not recognised as deferred income tax assets	2,550	925
Utilisation of deductible temporary differences previously not recognised	(2,329)	—
Utilisation of tax losses previously not recognised	(99)	(7,778)
Research and development tax credit	(6,304)	(8,239)
Withholding tax on dividend	1,615	7,168
(Over)/underprovision in prior years	(869)	2,170
Tax effect of share of profit of investments accounted for using the equity method	(1,270)	(2,156)
Income tax expense	379	18,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DISCONTINUED OPERATIONS

As set out in the Company's announcements dated 3 August 2023 and 29 August 2023, H+E Pharma and S-Tec, the then indirect non-wholly-owned subsidiaries of the Company, filed for insolvency under self-administration (debtor-in-possession) proceedings in Germany on 3 August 2023.

As the business operations of Germany Operations were considered as a separate geographical area of operations, and it was a component of an entity comprises operations and cash flows that was clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group, so it was considered and accounted for as the Discontinued Operations for the year ended 31 December 2023.

Accordingly, the carrying amount related to the net liabilities of the Discontinued Operations was deconsolidated from the consolidated financial statements of the Group as of 3 August 2023. The results, other comprehensive income and cash flows of the Discontinued Operations were separately presented in the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2023, respectively. The comparative information including the financial performance and cash flows from the Discontinued Operations has been re-presented and restated to conform to the current year's presentation.

The net liabilities relating to the Discontinued Operations were RMB113,320,000 upon deconsolidation as at 3 August 2023 and an aggregate one-off loss upon deconsolidation of the Discontinued Operations was recognised during the period and included in the losses from discontinued operations.

The loss for the period/year from Discontinued Operations is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present this business as discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DISCONTINUED OPERATIONS (Continued)

	Period from 1 January 2023 to 3 August 2023 RMB'000	Year ended 31 December 2022 RMB'000
Revenue	45,632	71,775
Cost of sales	(89,630)	(97,902)
 Gross loss	 (43,998)	 (26,127)
Selling and distribution expenses	(787)	(1,568)
Administrative expenses	(6,160)	(5,771)
Other (losses)/gains — net	(18,627)	1,072
 Operating loss	 (69,572)	 (32,394)
Finance costs	(3,225)	(653)
 Loss before income tax	 (72,797)	 (33,047)
Income tax credit	46	152
 Loss for the period/year from discontinued operations	 (72,751)	 (32,895)
Add: One-off gains recognised upon the deconsolidation of the Discontinued Operations attributable to owners of the Company	56,924	—
Less: Reclassification of cumulative translation reserve upon the deconsolidation of the Discontinued Operations	(3,182)	—
Less: Impairment loss on amounts due from the Discontinued Operations	(97,505)	—
 Loss for the period/year from discontinued operations	 (116,514)	 (32,895)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DISCONTINUED OPERATIONS (Continued)

The major classes of assets and liabilities relating to the Discontinued Operations as at 3 August 2023 were set out below:

	As at 3 August 2023 RMB'000
Deconsolidated assets	36,294
Deconsolidated liabilities	149,614
Deconsolidated net liabilities	(113,320)
Deconsolidated net liabilities attributable to non-controlling interests	(56,396)
Deconsolidated net liabilities attributable to owners of the Company	(56,924)

The net cash flows incurred relating to the Discontinued Operations are as follows:

	Period from 1 January 2023 to 3 August 2023 RMB'000	Year ended 31 December 2022 RMB'000
Operating activities	12,217	1,206
Investing activities	—	(218)
Financing activities	(9,627)	(702)
Effect of foreign exchange rate changes	234	79
Net cash inflow	2,824	365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

Continuing operations:

	2023 RMB'000	2022 RMB'000 (Restated)
Salaries and bonuses	359,592	348,885
Pension and social obligations	100,207	108,645
	459,799	457,530

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group were as follows:

	2023	2022
Directors	2	2
Non-director individuals	3	3
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(a) Five highest paid individuals (Continued)

The Directors' emoluments were reflected in the analysis presented in Note 11(b). The emoluments payable to the remaining individuals were as follows:

	2023 RMB'000	2022 RMB'000
Basic salaries and allowances	3,575	3,017
Discretionary bonuses	2,070	1,406
Other benefits including pension	296	237
	5,941	4,660

The emoluments fell within the following bands:

	Number of individuals	
	2023	2022
Emolument bands		
HK\$1,500,001-HK\$2,000,000 (Equivalent to RMB1,345,001-RMB1,794,000)	1	3
HK\$2,000,001-HK\$2,500,000 (Equivalent to RMB1,794,001-RMB2,242,000)	1	—
HK\$2,500,001-HK\$3,000,000 (Equivalent to RMB2,242,001-RMB2,691,000)	1	—
	3	3

During the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to these five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2023 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Other	Total
Executive Directors						
Ho Kwok Keung, Mars	—	919	—	16	—	935
Ho Kin Hung	—	2,004	235	—	19	2,258
Chen Yuewu	—	1,058	938	129	8	2,133
Zhou Ning	—	803	144	106	55	1,108
Non-Executive Director						
Ji Lingling	529	—	103	—	—	632
Independent Non-Executive Directors						
Chiu Hoi Shan	161	—	—	—	—	161
Cheung Lap Kei	161	—	—	—	—	161
Leung Oi Kin	161	—	—	—	—	161
Total	1,012	4,784	1,420	251	82	7,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

For the year ended 31 December 2022 (RMB'000):

Name	Fees	Salary	Discretionary	Employer's contribution to a retirement benefit scheme	Other	Total
			bonuses			
Executive Directors						
Ho Kwok Keung, Mars	—	880	—	15	—	895
Ho Kin Hung	—	1,932	446	—	19	2,397
Chen Yuewu	—	1,121	309	34	8	1,472
Zhou Ning	—	881	212	43	9	1,145
Non-Executive Director						
Ji Lingling	648	—	—	—	—	648
Independent Non-Executive Directors						
Chiu Hoi Shan	155	—	—	—	—	155
Cheung Lap Kei	155	—	—	—	—	155
Leung Oi Kin	155	—	—	—	—	155
Total	1,113	4,814	967	92	36	7,022

(c) Directors' retirement benefits

During the year ended 31 December 2023, retirement benefits of RMB251,000 (2022: RMB92,000) operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his/her services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries.

(d) Directors' termination benefits

During the year ended 31 December 2023, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

During the year ended 31 December 2023, no consideration was provided to or receivable by third parties for making available director's services (2022: Nil).

(f) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2022: Nil).

(g) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2022: Nil).

(h) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

(i) The non-executive directors' and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

12. DIVIDENDS

The Board did not propose any final dividend for the year ended 31 December 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13. (LOSS)/EARNINGS PER SHARE

From continuing operations

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to owners of the Company and the weighted average number of ordinary shares of approximately in issue during the year.

The calculation of the basic and diluted (loss)/earnings per share is based on the following:

	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/profit for the year attributable to owners of the Company	(113,473)	87,461
Less: loss for the period/year from discontinued operations attributable to owners of the Company	80,866	16,776
(Loss)/profit for the purpose of calculating basic and diluted (loss)/earnings per share from continuing operations	(32,607)	104,237
	2023 '000	2022 '000
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purposes of the basic and diluted (loss)/earnings per share	512,582	512,582

As the Company had no potential ordinary shares for each of the years ended 31 December 2023 and 2022, diluted (loss)/earnings per share for the years ended 31 December 2023 and 2022 are the same as basic (loss)/earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13. (LOSS)/EARNINGS PER SHARE (Continued)

From continuing and discontinued operations

	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic (loss)/earnings per share	(113,473)	87,461

The denominators used are the same as those detailed above for basic and diluted (loss)/earnings per share from continuing operations.

From discontinued operations

For the year ended 31 December 2023, basic and diluted loss per share for the discontinued operations is RMB15.78 cents per share (2022: RMB3.27 cents losses per share), based on the loss for the year attributable to owners of the Company from the discontinued operations of RMB80,866,000 (2022: RMB16,776,000) and the denominators used are the same as those detailed above for basic and diluted (loss)/earnings per share from continuing operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2022						
Opening net book value	5,033	30,877	1,804	135,555	15,183	188,452
Additions	—	6,588	26	82,794	18,070	107,478
Transfer upon completion of construction	750	33	—	(783)	—	—
Transfer to intangible assets (Note 16)	—	—	—	(3,524)	—	(3,524)
Depreciation charge (Note 5)						
— Continuing operations	(806)	(4,480)	(358)	—	(7,294)	(12,938)
— Discontinued operations	—	(493)	—	—	(155)	(648)
Disposal	—	(121)	—	—	(231)	(352)
Closing net book value	4,977	32,404	1,472	214,042	25,573	278,468
As at 31 December 2022						
Cost	17,370	75,094	5,502	214,042	54,810	366,818
Accumulated depreciation	(12,393)	(42,690)	(4,030)	—	(29,237)	(88,350)
Net book value	4,977	32,404	1,472	214,042	25,573	278,468
Year ended 31 December 2023						
Opening net book value	4,977	32,404	1,472	214,042	25,573	278,468
Additions	70	3,669	—	55,686	9,810	69,235
Transfer upon completion of construction	235,736	13,374	144	(264,131)	14,877	—
Transfer to intangible assets (Note 16)	—	—	—	(1,086)	—	(1,086)
Transfer to assets classified as held for sale	(3,765)	—	—	—	—	(3,765)
Depreciation charge (Note 5)						
— Continuing operations	(6,280)	(4,517)	(288)	—	(8,710)	(19,795)
— Discontinued operations	—	(1,489)	—	—	(304)	(1,793)
Disposal	—	(737)	—	—	(284)	(1,021)
Closing net book value	230,738	42,704	1,328	4,511	40,962	320,243
As at 31 December 2023						
Cost	249,411	86,925	5,646	4,511	78,141	424,634
Accumulated depreciation	(18,673)	(44,221)	(4,318)	—	(37,179)	(104,391)
Net book value	230,738	42,704	1,328	4,511	40,962	320,243

As at 31 December 2023, certain buildings and construction in progress of the Group amounting to RMB229,947,000 (2022: RMB128,556,000) were secured to bank borrowings (Notes 26, 27 and 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15. LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2023 RMB'000	2022 RMB'000
Right-of-use assets		
Land use right	61,830	75,889
Buildings	61,779	79,252
	123,609	155,141
Lease liabilities		
Within one year	13,380	14,381
Within a period of more than one year but not exceeding two years	12,821	13,216
Within a period of more than two years but not exceeding five years	34,813	37,221
Within a period of more than five years	4,504	12,437
	65,518	77,255

Additions to the right-of-use assets during the year ended 31 December 2023 were RMB1,617,000 (2022: RMB68,379,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15. LEASES (Continued)

(b) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

Continuing Operations:

Notes	2023 RMB'000	2022 RMB'000 (Restated)
Depreciation charge of right-of-use assets		
— Land use right	2,182	1,130
— Buildings	16,056	18,407
	18,238	19,537
Interest expense (included in finance costs)		
Expense relating to short-term leases	3,045	3,092
	405	841

The total cash outflow for leases in 2023 was RMB13,652,000 (2022: RMB22,007,000). The details as follows:

Payment for short-term lease — RMB405,000 (2022: RMB841,000)

Payment for principal elements of leases — RMB10,202,000 (2022: RMB18,074,000)

Payment for interest elements of leases — RMB3,045,000 (2022: RMB3,092,000)

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, plants and pieces of land. Rental contracts are typically made for fixed periods of 1 to 50 years as stated below but may have enforceability beyond the written contracts as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

	Lease terms
Buildings	1-10 years
Land use right	50 years

(d) As at 31 December 2023 and 2022, the Group's land use right for the value of RMB61,830,000 (2022: RMB68,837,000) were pledged as security for borrowings (Notes 26, 27 and 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. INTANGIBLE ASSETS

	Software and others RMB'000	Unpatented technologies RMB'000	Trademarks RMB'000	Know-how RMB'000	Goodwill RMB'000	Total RMB'000
Year ended 31 December 2022						
Opening net book value	11,996	—	2,247	6,870	—	21,113
Additions	12,225	24,000	—	—	—	36,225
Transfer from property, plant and equipment (Note 14)	3,524	—	—	—	—	3,524
Exchange differences	(1)	—	89	208	—	296
Amortisation charge (Note 5)						
— Continuing operations	(3,201)	(1,333)	—	—	—	(4,534)
— Discontinued operations	—	—	(178)	(581)	—	(759)
 Closing net book value	 24,543	 22,667	 2,158	 6,497	 —	 55,865
 As at 31 December 2022						
Cost	38,147	24,000	3,266	9,882	4,291	79,586
Accumulated amortisation	(13,604)	(1,333)	(1,108)	(3,385)	(4,291)	(23,721)
 Net book value	 24,543	 22,667	 2,158	 6,497	 —	 55,865
 Year ended 31 December 2023						
Opening net book value	24,543	22,667	2,158	6,497	—	55,865
Additions	1,706	—	—	—	—	1,706
Transfer from property, plant and equipment (Note 14)	1,086	—	—	—	—	1,086
Exchange differences	35	—	110	36	—	181
Amortisation charge (Note 5)						
— Continuing operations	(5,966)	(1,600)	—	—	—	(7,566)
— Discontinued operations	—	—	(2,268)	(6,533)	—	(8,801)
 Closing net book value	 21,404	 21,067	 —	 —	 —	 42,471
 As at 31 December 2023						
Cost	40,974	24,000	—	—	—	64,974
Accumulated amortisation	(19,570)	(2,933)	—	—	—	(22,503)
 Net book value	 21,404	 21,067	 —	 —	 —	 42,471

Note:

Amortisation expenses are included in cost of sales RMB1,895,000 (2022: RMB1,449,000), selling and marketing expenses RMB1,377,000 (2022: RMB187,000), administrative expenses RMB4,127,000 (2022: RMB2,801,000), and research and development cost RMB167,000 (2022: RMB97,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated statement of financial position are as follows:

	2023 RMB'000	2022 RMB'000
Opening balance at 1 January	85,499	39,703
Addition (Note)	—	39,615
Share of net profit	6,731	9,536
Share of other comprehensive income/(expense)	257	(515)
Exchange differences	(5,437)	2,482
Dividend received	(4,940)	(5,322)
 Closing balance at 31 December	 82,110	 85,499

Note:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

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

Fair value of net assets acquired:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Note	Measurement method
Steris-Austar Pharmaceutical Systems Hong Kong Limited ("STERIS-AUSTAR JV")	Hong Kong	49.00%	Joint venture	Note (a)	Equity
Steris-Austar Pharmaceutical Systems (Shanghai) Ltd. ("STERIS-AUSTAR WFOE")	Shanghai	49.00%	Joint venture	Note (a)	Equity
ROTA Verpackungstechnik GmbH & Co. KG ("ROTA KG")	Germany	33.33%	Associate	Note (b)	Equity
ROTA Verpackungstechnik Verwaltungsgesellschaft mbH ("ROTA GmbH")	Germany	33.33%	Associate	Note (b)	Equity
Noozle	Shanghai	40.00%	Associate	Note (c)	Equity

Notes:

- (a) STERIS-AUSTAR JV is a strategic partnership to the Group, which develops and produces pharmaceutical equipment via its subsidiary STERIS-AUSTAR WFOE in the PRC.
- (b) ROTA KG is a strategic partnership to the Group, which develops and produces pharmaceutical equipment in Germany. ROTA GmbH, the general partner of ROTA KG, is an investment holding company.
- (c) Noozle is a strategic partnership to the Group, which develops and produces pharmaceutical equipment in Shanghai.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Summarised statements of financial position

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

	STERIS-AUSTAR JV*		ROTA KG*		Noozle	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Current						
Cash and cash equivalents	10,404	23,512	17	15	20,925	26,804
Other current assets	52,994	62,006	51,975	46,567	74,023	58,281
Total current assets	63,398	85,518	51,992	46,582	94,948	85,085
Financial liabilities (excluding trade payables)	(6,473)	(7,726)	(1,528)	(997)	(349)	(8,104)
Other current liabilities (including trade payables)	(27,756)	(41,442)	(27,911)	(31,108)	(35,919)	(29,540)
Total current liabilities	(34,229)	(49,168)	(29,439)	(32,105)	(36,268)	(37,644)
Non-current						
Assets	4,310	3,601	50,579	50,882	20,545	22,728
Financial liabilities	—	—	(38,003)	(32,973)	—	—
Other liabilities	(1,972)	(1,972)	(5,783)	(5,790)	(4,355)	(6,054)
Net assets	31,507	37,979	29,346	26,596	74,870	64,115

* The financial information includes its respective subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Summarised statements of profit or loss and other comprehensive income

	STERIS-AUSTAR JV*		ROTA KG*		Noozle	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Revenue	64,810	67,771	143,564	150,052	61,263	37,848
Depreciation and amortisation	(259)	(344)	(3,641)	(3,443)	(3,125)	(1,028)
Interest income	206	259	—	—	6	6
Interest expense	(10)	(12)	(3,188)	(1,315)	(258)	(326)
 Profit before income tax	 6,100	 18,296	 1,127	 1,600	 12,653	 8,160
Income tax expense	(1,850)	(4,915)	(88)	(196)	(1,898)	(1,879)
 Profit for the year	 4,250	 13,381	 1,039	 1,404	 10,755	 6,281
Other comprehensive (expense)/income	(639)	(1,051)	1,711	(1,779)	—	—
 Total comprehensive income/(expense)	 3,611	 12,330	 2,750	 (375)	 10,755	 6,281
 Dividends received from joint ventures	 4,940	 5,322	 —	 —	 —	 —

* The financial information includes its respective subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Summarised financial information

	STERIS-AUSTAR JV*		ROTA KG*		Nooze	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Opening net assets as at 1 January	37,979	36,510	26,596	26,971	64,115	57,834
Profit for the year	4,250	13,381	1,039	1,404	10,755	6,281
Dividends	(10,083)	(10,861)	—	—	—	—
Other comprehensive income (expense)	(639)	(1,051)	1,711	(1,779)	—	—
Closing net assets	31,507	37,979	29,346	26,596	74,870	64,115
Interest	15,439	18,610	9,782	8,865	29,948	25,646
Goodwill	—	—	8,760	8,760	16,481	16,481
Accumulated exchange differences	394	—	1,306	7,137	—	—
Carrying value	15,833	18,610	19,848	24,762	46,429	42,127

* The financial information includes its respective subsidiaries.

The information above reflects the amounts presented in the financial statements of the associates and joint ventures and not the Group's share of those amounts. They have been amended to reflect adjustment made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policies between the Group and the associates and joint ventures.

18. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	119,659	175,226
Work in progress	86,974	143,874
Finished goods	59,071	88,110
Less: write-down of inventories	265,704 (22,544)	407,210 (19,104)
	243,160	388,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

19. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

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

Notes	2023 RMB'000	2022 RMB'000
Contract assets	662,881	591,660
Less: loss allowance	(19,975)	(7,767)
	642,906	583,893
Costs incurred to obtain contracts	(iii)	—
Total contract assets	642,906	585,364
Contract liabilities	(i)	(180,190)
		(382,707)

As at 1 January 2022, contract assets amounted to RMB377,937,000 and contract liabilities amounted to RMB466,689,000.

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	223,239	343,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

19. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS (Continued)

(ii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts.

	2023 RMB'000	2022 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	1,013,842	1,442,135

As of 31 December 2023, the aggregate amount of the transaction price allocated to the remaining performance obligation ("backlog") is RMB1,013,842,000 (2022: RMB1,442,135,000) and management expects that the Group will recognise this revenue as the contracts are completed, most of which is expected to occur over the next 24 months.

(iii) Costs incurred to obtain contracts

In addition to the contract balances disclosed above, the Group has also recognised assets in relation to costs to obtain contracts. This is presented within contract assets and other assets in the consolidated statement of financial position.

	2023 RMB'000	2022 RMB'000
Asset recognised from costs incurred to obtain contracts at 31 December	—	1,471
Amortisation recognised as cost of satisfying performance obligations during the year	1,471	551

The Group recognised assets in relation to costs incurred to obtain contracts. The assets are amortised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation over the term of the specific contracts they relates to, consistent with the pattern of recognition of the associated revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

20. TRADE AND NOTES RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables (Note (a))	349,258	413,202
Notes receivables (Note (b))	52,078	33,432
Less: loss allowance	401,336 (49,553)	446,634 (30,121)
End of the year	351,783	416,513

Notes:

(a) The ageing analysis of gross trade receivables (including amounts due from related parties of trading in nature of RMB11,292,000 (2022: RMB14,379,000)) based on sales contracts at the respective dates of consolidated statement of financial position is as follows:

	2023 RMB'000	2022 RMB'000
Within 6 months	202,822	274,285
6 months to 1 year	47,895	43,379
1 to 2 years	42,710	56,769
2 to 3 years	32,764	23,506
Over 3 years	23,067	15,263
	349,258	413,202

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

As at 31 December 2023, included in the Group's trade receivables balances are nil (2022: nil) debtors which are past due as at the reporting date.

The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

20. TRADE AND NOTES RECEIVABLES (Continued)

Notes: (Continued)

(b) Most of the notes receivables are bank acceptance with maturity dates within six months (2022: within six months). At 31 December 2023, notes receivables of RMB31,899,000 (2022: RMB10,407,000) were classified as financial assets at fair value through other comprehensive income.

Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2023, the Group endorsed certain notes receivable accepted by banks in the PRC (the "**Endorsed notes**") with a carrying amount of RMB52,078,000 (2022: RMB33,432,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "**Endorsement**").

In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Notes, including the sale, transfer or pledge to any other third parties.

(c) The carrying amounts of the Group's trade and notes receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023 RMB'000	2022 RMB'000
US\$	10,878	7,560
EUR	2,774	14,346
HK\$	—	383
Others	3,761	916
	17,413	23,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. PREPAYMENTS AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Current:		
Prepayments to suppliers	69,062	101,276
Staff advance	2,660	5,900
Receivable for disposal of land use right classified as right-of-use asset (Note (d))	12,575	—
Others	14,433	21,754
Less: provision for impairment (Note (b))	98,730 (879)	128,930 (930)
	97,851	128,000
Deposits as guarantee for bidding	19,994	31,849
Less: loss allowance (Note 34.1(b))	(608)	(810)
	19,386	31,039
	117,237	159,039

Notes:

(a) As at 31 December 2023 and 2022, the carrying amounts of other receivables are approximated at their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) Movements of the Group's provision for impairment of prepayments and other receivables (excluding those financial assets measured at amortised cost) are as follows:

	2023 RMB'000	2022 RMB'000
Beginning of the year	(930)	(931)
Reversal	51	1
End of the year	(879)	(930)

(c) The carrying amounts of the Group's other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023 RMB'000	2022 RMB'000
US\$	99	58
HK\$	13	205
Others	180	—
	292	263

(d) The receivable for disposal of land use right classified as right-of-use asset located in Germany has been fully settled subsequent to 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. PLEDGED BANK DEPOSITS, TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

	2023 RMB'000	2022 RMB'000
Cash and cash equivalents		
— Cash in hand	20	30
— Deposits at bank	163,745	133,594
Pledged bank deposits (Note (a))	163,765	133,624
Term deposits with initial terms of over three months	36,378	103,856
	10,000	14,505
	210,143	251,985

Notes:

- (a) The pledged bank deposits were held as security mainly for standby letter of credit, letter of guarantee and restricted deposit for lawsuit.
- (b) The carrying amounts of the Group's of pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023 RMB'000	2022 RMB'000
US\$	28,346	59,071
RMB	26,349	126
HK\$	5,014	5,014
EUR	378	2,625
Others	150	987
	60,237	67,823

23. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2023, a land use right of RMB4,825,000 and an aboveground factory of RMB3,765,000 situated in Shanghai in the PRC have been classified as held for sale and are presented separately in the consolidated statement of financial position. Management of the Group is committed to a plan to sell these assets and is actively locating a buyer to complete the plan, which these assets are expected to be sold within twelve months. Management of the Group expects that the net proceeds of disposal of these assets will exceed the net carrying amount of the assets and relevant liabilities and accordingly, no impairment loss has been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

24. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK\$'000
Authorised, HK\$0.01 each:		
At 1 January 2022, 31 December 2022 and 31 December 2023	10,000,000	100,000
Issued and fully paid, HK\$0.01 each:		
At 1 January 2022, 31 December 2022 and 31 December 2023	512,582	5,126
	Number of ordinary shares Thousands	Equivalent nominal value of ordinary share HK\$'000
Issued and fully paid, HK\$0.01 each:		
At 1 January 2022, 31 December 2022 and 31 December 2023	512,582	5,126
		4,071

25. TRADE AND OTHER PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables (Note (b))	405,927	426,204
Payroll and welfare payable	69,953	126,830
Accrued expenses	32,596	34,031
Payable to vendors of construction, machinery and equipment	99,564	81,784
Indirect taxes payable	9,781	17,690
Warranty provision (Note (f))	20,781	16,499
Employee payable	1,890	2,378
Loan from a non-controlling shareholder of a subsidiary (Note (a))	—	1,299
Others	22,944	32,888
	663,436	739,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

25. TRADE AND OTHER PAYABLES (Continued)

Notes:

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

(b) The ageing analysis of trade payables (including amounts due to related parties of trading in nature of RMB35,421,000 (2022: RMB25,937,000)) based on invoice date is as follows:

	2023 RMB'000	2022 RMB'000
Within 6 months	266,485	348,478
6 months to 1 year	90,876	55,297
1 to 2 years	31,209	7,997
2 to 3 years	4,679	4,014
Over 3 years	12,678	10,418
	405,927	426,204

(c) As at 31 December 2023 and 2022, the carrying amounts of trade and other payables are approximated at their fair values.

(d) The carrying amounts of the Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023 RMB'000	2022 RMB'000
US\$	21,941	13,319
EUR	2,982	21,355
HK\$	740	1,414
Others	688	5,024
	26,351	41,112

(e) As at 31 December 2023, payments for trade payables RMB33,062,000 (2022: RMB22,098,000) with notes receivables were not derecognised.

(f) The warranty provision represents managements best estimate of the Group's liability under 2-year assurance-type warranty granted on pharmaceutical equipment, based on prior experience for defective products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. LONG-TERM BORROWINGS

	2023 RMB'000	2022 RMB'000
Bank borrowings, secured (Note (a))	77,810	85,737
Bank borrowings, unsecured (Note (b))	97,558	—
Less: Long-term borrowings due within one year	175,368 (64,520)	85,737 (45,670)
	110,848	40,067
The carrying amount of the above borrowing is repayable*:		
Within one year	64,520	45,670
Within a period more than one year but not exceeding two years	88,968	40,067
Within a period more than two years but not exceeding five years	21,880	—
Less: amount due within one year shown under current liabilities	175,368 (64,520)	85,737 (45,670)
Amounts shown under non-current liabilities	110,848	40,067

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes:

- (a) As at 31 December 2023, the secured long-term bank borrowings are denominated in RMB and secured by the Group's buildings, construction in progress, right-of-use assets and assets classified as held for sale (Notes 14, 15 and 23). For the year ended 31 December 2023, the secured long-term bank borrowings bore interest rates ranging from 3.95% to 4.35% (2022: 4.45% to 4.65%) per annum.
- (b) As at 31 December 2023, the unsecured long-term bank borrowings were denominated in RMB and bore interest rates ranging from 3.5% to 3.65% (2022: nil) per annum. As at 31 December 2023 and 2022, certain bank borrowings were guaranteed by certain subsidiaries of the Group.

As at 31 December 2023, the fair value of the borrowings (including long-term borrowings due within one year) was not materially different to their carrying amounts, since the interest payable on those borrowings was close to current market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. LONG-TERM BORROWINGS (Continued)

The exposure of the Group's long-term borrowings are as follows:

	2023 RMB'000	2022 RMB'000
Fixed-rate borrowings	39,780	62,297
Variable-rate borrowings	135,588	23,440
	175,368	85,737

The Group's variable-rate borrowings carry interest at the People's Bank of China Loan Prime Rate minus 0.05% to plus 0.90% per annum. Interest rate is reset every twelve months.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2023	2022
Effective interest rate:		
Fixed-rate borrowings	3.50% to 3.65%	4.75%
Variable-rate borrowings	3.50% to 4.75%	4.45% to 4.65%

The Group's bank borrowings are denominated in RMB which is the functional currencies of the relevant group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. SHORT-TERM BORROWINGS

	2023 RMB'000	2022 RMB'000
Bank borrowings, secured (Note (a))	61,425	21,464
Bank borrowings, unsecured (Note (b))	193,888	150,790
	255,313	172,254

Notes:

- (a) As at 31 December 2023, the secured short-term bank borrowings were denominated in RMB and secured by the Group's buildings, right-of-use assets and assets classified as held for sale (Notes 14, 15 and 23). For the year ended 31 December 2023, the secured short-term bank borrowings bore interest rates from 2.40% to 4.00% (2022: 4.00% to 4.52%) per annum and were repayable within one year.
- (b) As at 31 December 2023, the unsecured short-term bank borrowings are denominated in RMB (2022: RMB and EUR) and bore interest rates ranging from 3.10% to 4.10% (2022: 3.80% to 7.00%) per annum and were repayable within one year. As at 31 December 2023 and 2022, certain bank borrowings were guaranteed by certain subsidiaries of the Group.

The exposure of the Group's borrowings are as follow:

	2023 RMB'000	2022 RMB'000
Fixed-rate borrowings	196,713	148,560
Variable-rate borrowings	58,600	23,694
	255,313	172,254

The Group's variable-rate borrowings carry interest at the People's Bank of China Loan Prime Rate plus 0.35% per annum. Interest rate is reset every twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. SHORT-TERM BORROWINGS (Continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2023	2022
Effective interest rate:		
Fixed-rate borrowings	2.40% to 4.10%	3.80% to 7.00%
Variable-rate borrowings	3.10% to 4.00%	4.00% to 4.65%

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	2023 RMB'000	2022 RMB'000
EUR	—	8,225

28. DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
At beginning of the year	544	746
Additions of government grant obtained	2,694	651
Credited to profit or loss (Note 6)	(2,897)	(853)
At end of the year	341	544

29. OTHER FINANCIAL LIABILITIES

	2023 RMB'000	2022 RMB'000
Measured at amortised cost:		
Redemption liabilities (Note)	4,642	4,192

Note: Redemption liabilities are arising from put option arrangements with non-controlling shareholders of an established subsidiary of approximately RMB4,642,000 (2022: RMB4,192,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. DEFERRED INCOME TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Deferred tax assets	16,720	12,783
Deferred tax liabilities	(37,843)	(37,740)
	(21,123)	(24,957)

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

	2023 RMB'000	2022 RMB'000
As at 1 January	(24,957)	(21,339)
Credited/(charged) directly to equity	63	(565)
Credited/(charged) to profit or loss		
— Continuing operations (Note 9)	2,717	(3,205)
— Discontinued operations	—	152
Deconsolidation due to discontinued operations	1,054	—
As at 31 December	(21,123)	(24,957)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. DEFERRED INCOME TAX (Continued)

The following are the major deferred tax assets/(liabilities) recognised and movements thereon during the current and prior years:

	Deferred tax assets			Deferred tax liabilities			
	Impairment provision of receivables and inventories	Warranty provision accrued payroll and others	Lease liabilities	Withholding tax	Fair value adjustments	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2022	7,256	1,659	5,692	(29,012)	(1,242)	(5,692)	(21,339)
Credited/(charged) to profit or loss							
— Continuing operations	935	2,933	5,078	(7,168)	95	(5,078)	(3,205)
— Discontinued operations	—	—	—	—	152	—	152
Charged directly to equity	—	—	—	—	(565)	—	(565)
As at 31 December 2022	8,191	4,592	10,770	(36,180)	(1,560)	(10,770)	(24,957)
Credited/(charged) to profit or loss	3,617	(270)	(1,885)	(1,616)	443	2,428	2,717
Credited directly to equity	—	—	—	—	63	—	63
Deconsolidation due to discontinued operations	—	—	—	—	1,054	—	1,054
As at 31 December 2023	11,808	4,322	8,885	(37,796)	—	(8,342)	(21,123)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

For the year ended 31 December 2023, the Group did not recognise deferred income tax assets of RMB38,358,000 (2022: RMB40,684,000) in respect of losses amounting to RMB173,188,000 (2022: RMB207,035,000) as utilisation of such tax losses before expiry is uncertain.

For the year ended 31 December 2023, the Group did not recognise deferred income tax assets of RMB4,366,000 (2022: RMB3,756,000) in respect of deductible temporary differences amounting to RMB27,451,000 (2022: RMB25,005,000) as utilisation of such deductible temporary differences in the foreseeable further is uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. CONTINGENT LIABILITIES

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

As at 31 December 2023, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR887,000 (2022: EUR887,000) approximated at RMB6,971,000 (2022: RMB6,584,000). It sets forth the maximum exposure of these guarantees to the Group.

32. COMMITMENTS

(a) Capital commitments

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

	2023 RMB'000	2022 RMB'000
Property, plant and equipment	498	54,457
Intangible assets	1,576	—
	2,074	54,457

(b) Lease commitments

The Group leases various offices and warehouses under non-cancellable lease agreements. The Group has recognised right-of-use assets for these leases (Note 15), except for short-term leases as set out below:

	2023 RMB'000	2022 RMB'000
Not later than one year	—	263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Notes	2023 RMB'000	2022 RMB'000
Financial assets		
Financial assets at amortised cost		
— Trade receivables	20	299,705
— Notes receivables		20,179
— Deposits as guarantee for bidding	21	19,386
— Pledged bank deposits	22	36,378
— Term deposits with initial terms of over three months	22	10,000
— Cash and cash equivalents	22	163,765
Financial assets at FVTOCI		
— Notes receivables	20	31,899
Total	581,312	699,537
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and other payables	34.1(c)	530,325
— Borrowings	26, 27	430,681
— Other financial liabilities	29	4,642
Total	965,648	806,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT

34.1 Financial risk factors

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

(a) *Market risk*

(i) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar (US\$) and Euro (EUR). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the entity's functional currency. The Group has exposures on foreign currencies mainly for those entities adopted Hong Kong dollar and RMB as functional currency.

As at 31 December 2023, if RMB had weakened/strengthened by 5% (2022: 5%) against the US dollar with all other variables held constant, loss before income tax for the year (2022: profit before income tax for the year) would have been RMB585,000 (2022: RMB2,972,000) higher/lower (2022: lower/higher), respectively, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents, receivables and payables held by the group entities.

As at 31 December 2023, if RMB had weakened/strengthened by 5% (2022: 5%) against the EUR with all other variables held constant, loss before income tax for the year (2022: profit before income tax for the year) would have been RMB27,000 (2022: RMB1,571,000) lower/higher (2022: higher/lower), respectively, mainly as a result of foreign exchange losses/gains on translation of EUR denominated pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents, receivables and payables held by the group entities.

As at 31 December 2023, if Hong Kong dollar had weakened/strengthened by 5% (2022: 5%) against the EUR with all other variables held constant, loss before income tax for the year (2022: profit before income tax for the year) would have been RMB22,000 (2022: RMB354,000) higher/lower (2022: higher/lower), respectively, mainly as a result of foreign exchange losses/gains on translation of EUR denominated pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents, receivables and payables held by the group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(i) *Foreign exchange risk* (Continued)

As Hong Kong dollar is pegged to US\$, the Group does not have material exchange rate risk on such currency. The foreign exchange risk arising from the exposure of other foreign currencies is considered to be minimal.

(ii) *Interest rate risk*

The Group's cash flow interest rate risk arises mainly from certain bank borrowings which are carried at floating rate. As at 31 December 2023, if the market interest rate has been 100 (2022: 100) basis points higher/ lower with all other variables held constant, loss for the year (2022: profit for the year) would have been RMB1,941,000 (2022: RMB471,000) higher/lower (2022 lower/higher).

(b) *Credit risk*

The Group is exposed to credit risk mainly in relation to its trade and notes receivables, other receivables, contract assets and cash deposits with banks.

(i) *Risk management*

To manage this risk, management of the Group places bank deposits mainly with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions.

For trade receivables and contract assets, the Group assesses the credit quality of the customer, taking its financial position, past experience and other factors into consideration. The compliance with credit limit by customers is regularly monitored by management of the Group. The Group has policies in place that sales are made to customers with solid financial position and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable and contract asset to ensure that adequate impairment losses are made. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(i) *Risk management* (Continued)

For other receivables and deposits, management of the Group makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. Management of the Group believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL ("12m ECL").

Notes receivables are issued from state-owned banks in the PRC. The credit quality of notes receivables has been assessed by reference to external credit ratings and to historical information about the counterparty default rates.

For financial guarantee contract, the aggregate amount of outstanding financial guarantee issued to a bank in respect of bank facilities granted to an associate that the Group could be required to pay amounted to EUR887,000 approximated at RMB6,971,000 as at 31 December 2023 (2022: EUR887,000 approximated at RMB6,584,000). EUR887,000 approximated at RMB6,971,000 (2022: EUR887,000 approximated at RMB6,584,000) of the outstanding financial guarantee has been utilised by the associate. The fair value of the financial guarantee, as at dates of initial recognition, was considered insignificant. At the end of the reporting period, management of the Group has performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contract. Accordingly, the loss allowance for financial guarantee contract issued by the Group is measured at an amount equal to 12m ECL. No loss allowance was recognised in profit or loss.

(ii) *Impairment of financial assets*

The Group has four types of financial assets that are subject to the ECL model:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Credit risk on pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents is limited because the counterparties are reputable banks with high credit ratings assigned by international credit rating agencies. The Group assessed 12m ECL for pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents is considered to be insignificant and therefore no loss allowance was recognised.

The Group considered most of notes receivables are bank acceptance with maturity dates within six months to have low credit risk. Management of the Group considered notes receivables were of low credit risk when they have a low risk of default and the accepting bank has a strong capacity to meet its contractual cash flow obligations in the near term. The identified impairment loss was immaterial.

Trade receivables and contract assets

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

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

The expected loss rates are based on the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group considers the following indicators in forward-looking estimates, such as changes in macroeconomic conditions, time value, industry trends and accordingly adjusts the historical loss rates based on expected changes in these factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

On that basis, the loss allowance as at 31 December 2023 and 31 December 2022 was determined as follows for both trade receivables and contract assets.

As at 31 December 2023	Within	6 months	1 to	2 to	Over	Total
	6 months	to 1 year	2 years	3 years	3 years	
Expected loss rate	0.46%	2.40%	12.19%	24.11%	82.77%	
Gross carrying amount — trade receivables	202,108	46,449	35,370	25,183	15,465	324,575
Gross carrying amount — contract assets	575,857	49,878	23,486	923	361	650,505
Loss allowance	3,591	2,311	7,174	6,293	13,100	32,469

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

The trade receivables and contract assets relating to customers with known financial difficulties or with significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2023, the balance of individually assessed receivables and contract assets were RMB37,059,000 (2022: RMB8,986,000) and the loss allowances in respect of individually assessed receivables and contract assets were RMB37,059,000 (2022: RMB8,986,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets under the simplified approach.

Trade receivables and contract assets	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2022	30,084	11,244	41,328
— Impairment losses recognised	6,560	755	7,315
— Impairment losses reversed	(7,684)	(3,013)	(10,697)
— Write-offs	(288)	—	(288)
New financial assets originated			
— Impairment losses recognised	230	—	230
As at 31 December 2022	28,902	8,986	37,888
— Impairment losses recognised	7,322	31,051	38,373
— Impairment losses reversed	(3,650)	(2,978)	(6,628)
— Write-offs	(455)	—	(455)
New financial assets originated			
— Impairment losses recognised	350	—	350
As at 31 December 2023	32,469	37,059	69,528

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. This is generally the case when the Group determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include deposits as guarantee for bidding recognised in other receivables.

Impairment on other financial assets at amortised cost is measured as either 12m ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk has occurred since initial recognition, then impairment is measured as lifetime ECLs.

The loss allowance for other financial assets at amortised cost as at 31 December reconciles to the opening as follows:

	Lifetime ECL (credit-impaired)	
	2023 RMB'000	2022 RMB'000
Opening loss allowance at 1 January	810	870
Decrease in loss allowance recognised in profit or loss during the year	(202)	(60)
Closing loss allowance at 31 December	608	810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(ii) *Impairment of financial assets* (Continued)

Net impairment losses on financial and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to financial assets and contract assets:

	2023 RMB'000	2022 RMB'000
Impairment losses/(gains) for trade receivables and contract assets	32,095	(3,152)
Reversal of impairment on other financial assets at amortised cost	(202)	(60)
Net impairment losses on financial and contract assets	31,893	(3,212)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Financial risk factors (Continued)

(c) Liquidity risk

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

	Less than 1 year RMB'000	Between 1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2023					
Trade payables	405,927	—	—	405,927	405,927
Other payables	124,398	—	—	124,398	124,398
Lease liabilities (Note 15)	16,142	51,950	4,610	72,702	65,518
Short-term borrowings (Note 27)	259,742	—	—	259,742	255,313
Long-term borrowings (Note 26)	71,156	112,100	—	183,256	175,368
Other financial liabilities	—	—	5,314	5,314	4,642
Financial guarantee contracts (Note 31)	6,971	—	—	6,971	—
	884,336	164,050	9,924	1,058,310	1,031,166
 As at 31 December 2022					
Trade payables	426,204	—	—	426,204	426,204
Other payables	118,349	—	—	118,349	118,349
Lease liabilities (Note 15)	14,933	59,111	18,918	92,962	77,255
Short-term borrowings (Note 27)	176,034	—	—	176,034	172,254
Long-term borrowings (Note 26)	46,618	45,766	—	92,384	85,737
Other financial liabilities	—	—	5,314	5,314	4,192
Financial guarantee contracts (Note 31)	6,584	—	—	6,584	—
	788,722	104,877	24,232	917,831	883,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.2 Capital management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings and lease liabilities, including current and non-current portions as shown in the consolidated statement of financial position.

The gearing ratio as at 31 December 2023 and 2022 are as follows:

	2023 RMB'000	2022 RMB'000
Gross debt (Note 35(b))	501,051	340,848
Total equity	775,473	883,581
Total capital	1,276,524	1,224,429
Gearing ratio	39%	28%

The gearing ratio increased from 28% to 39% as a result of the increase in short-term borrowings and long-term borrowings in 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.3 Fair value estimation

Financial assets

(i) *Fair value hierarchy*

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
At 31 December 2023			
Financial assets			
Financial assets at FVTOCI			
— Notes receivables	—	31,899	—
Total financial assets	—	31,899	—

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
At 31 December 2022			
Financial assets			
Financial assets at FVTOCI			
— Notes receivables	—	10,407	—
Total financial assets	—	10,407	—

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (Continued)

34.3 Fair value estimation (Continued)

Financial assets (Continued)

(i) *Fair value hierarchy* (Continued)

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

The fair value of financial assets and financial liabilities which are at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in consolidated financial statements approximate their fair values due to short maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/profit before income tax		(34,410)	119,532
Adjustments for:			
Depreciation			
— Property, plant and equipment	14	19,795	12,938
— Right-of-use assets	15	18,238	19,537
Amortisation	16	7,566	4,534
Net impairment losses/(gains) on financial assets and contract assets	34.1(b)	31,893	(3,212)
Losses on disposals on property, plant and equipment	7	850	297
Gain on disposal of land use right classified as right-of-use asset	7	(4,954)	—
Reversal of impairment of prepayments and other receivables		(51)	(1)
Write-down of inventories	5	14,161	4,484
Share of net profit of investments accounted for using the equity method	17	(6,731)	(9,536)
Finance costs		14,146	8,649
Deferred income	28	(2,897)	(853)
Interest income	8	(3,290)	(2,273)
Operating cash flows before movements in working capital		54,316	154,096
Decrease in pledged bank deposits		67,478	68,461
Decrease in inventories		85,549	32,035
Decrease/(increase) in trade and other receivables		68,782	(94,154)
(Decrease)/increase in trade and other payables		(74,966)	103,006
Decrease in contract liabilities		(203,494)	(83,982)
Increase in contract assets		(71,117)	(205,829)
Increase in deferred income		2,694	651
Cash used in operations		(70,758)	(25,716)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Net debt reconciliation

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

	Notes	2023 RMB'000	2022 RMB'000
Cash and cash equivalents	22	163,765	133,624
Lease liabilities	15	(65,518)	(77,255)
Borrowings	26, 27	(430,681)	(257,991)
Interest payable		(210)	(111)
Other financial liabilities	29	(4,642)	(4,192)
Loan from a non-controlling shareholder of a subsidiary	25	—	(1,299)
Net debt		(337,286)	(207,224)
Cash and cash equivalents	22	163,765	133,624
Gross debt	34.2	(501,051)	(340,848)
Net debt		(337,286)	(207,224)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Net debt reconciliation (Continued)

	Liabilities from financing activities					Other assets	
	Loan from a non-controlling shareholder of		Interest payables (included in other payables)		Other financial liabilities	Subtotal	Cash
	Borrowings	a subsidiary	Leases	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2022	(109,101)	(1,263)	(44,859)	(210)	—	(155,433)	198,447
Cash flows	(148,563)	—	21,166	6,601	—	(120,796)	(65,768)
Foreign exchange adjustments	(327)	(36)	—	—	(136)	(499)	945
Interest expense	—	—	(3,092)	(6,502)	—	(9,594)	—
Other non-cash movements	—	—	(50,470)	—	(4,056)	(54,526)	—
Net debt as at 31 December 2022	(257,991)	(1,299)	(77,255)	(111)	(4,192)	(340,848)	133,624
							(207,224)
Cash flows	(180,806)	—	13,247	10,817	—	(156,742)	29,999
Discontinued operations	8,407	1,299	2,930	—	—	12,636	—
Foreign exchange adjustments	(291)	—	222	—	(265)	(334)	142
Interest expense	—	—	(3,045)	(10,916)	(185)	(14,146)	—
Other non-cash movements	—	—	(1,617)	—	—	(1,617)	—
Net debt as at 31 December 2023	(430,681)	—	(65,518)	(210)	(4,642)	(501,051)	163,765
							(337,286)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. RELATED PARTY TRANSACTIONS

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

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2023 and 2022:

Names of the related parties	Nature of relationship
STERIS-AUSTAR WFOE	A joint venture of the Group
Austar Limited	Under common control of the Controlling Shareholder
ROTA KG	An associate of the Group
H+E Pharma (Note)	Non-controlling shareholder of a then subsidiary of the Group
Aquarion AG (Note)	Ultimate holding company of non-controlling shareholder of a then subsidiary of the Group
Noozle	An associate of the Group

Note:

On 3 August 2023, the Discontinued Operations were deconsolidated from the Group's consolidated financial statements. H+E Pharma and Aquarion AG ceased to be the related parties of the Group on 3 August 2023. The transactions with H+E Pharma and Aquarion AG as disclosed in Note (b) below represented the transactions between the Discontinued Operations with H+E Pharma and Aquarion AG during the period from 1 January 2023 to 3 August 2023 and the year ended 31 December 2022.

(b) Significant transactions with related parties

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

(i) Purchase of goods and services

	2023 RMB'000	2022 RMB'000
STERIS-AUSTAR WFOE	66,198	60,286
ROTA KG	1,309	—
Noozle	126	—
H+E Pharma	446	658
	68,079	60,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(ii) Sales of goods and services

	2023 RMB'000	2022 RMB'000
STERIS-AUSTAR WFOE	12,172	15,548
ROTA KG	701	3,920
H+E Pharma	4,744	9,943
	17,617	29,411

(iii) Rental expenses

	2023 RMB'000	2022 RMB'000
Austar Limited	145	152
Aquarion AG	61	113
	206	265

(iv) Rental and miscellaneous income

	2023 RMB'000	2022 RMB'000
STERIS-AUSTAR WFOE	449	419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) *Receivable due from/prepayments to related parties*

	2023 RMB'000	2022 RMB'000
Receivable due from:		
STERIS-AUSTAR WFOE	9,961	12,682
ROTA KG	1,331	725
H+E Pharma	—	972
Prepayments to:		
Austar Limited	25	25
ROTA KG	—	387
	11,317	14,791

(ii) *Payable due to related parties*

	2023 RMB'000	2022 RMB'000
STERIS-AUSTAR WFOE	35,236	23,168
ROTA KG	185	—
Aquarion AG	—	1,997
H+E Pharma	—	772
	35,421	25,937

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	2023 RMB'000	2022 RMB'000
Salaries and bonuses	10,051	10,034
Pension and others	765	967
	10,816	11,001

37. ASSETS PLEDGED AS SECURITY

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

	2023 RMB'000	2022 RMB'000
Property, plant and equipment		
— Buildings	229,947	4,135
— Construction in progress	—	124,421
Right-of-use assets		
— Land use right	61,830	68,837
Assets classified as held for sale		
— Buildings	3,765	—
— Land use right	4,825	—
Total assets pledged as security	300,367	197,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The following is a list of principal subsidiaries as at 31 December 2023 and 2022:

Company name	Kind of legal entity	Country/place and date of incorporation	Attributable equity interest of the Group			Principal activities/place of operation
			Issued and paid-up capital	Interest of the Group	Attributable equity interest of the Group	
Directly owned:						
Austar Equipment Limited (奧星設備有限公司)	Limited liability company	BVI/25 January 2005	US\$100	100%	100%	Investment holding/BVI
Indirectly owned:						
Shanghai Austar	Limited liability company	Shanghai, the PRC/ 20 August 2003	US\$29,265,032	100%	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar SJZ	Limited liability company	Shijiazhuang, the PRC/ 9 July 2004	RMB51,060,000	100%	100%	Provision of integrated engineering solutions pharmaceutical equipment manufacturing, maintenance, GMP compliance service/the PRC
Austar Hansen	Limited liability company	Shanghai, the PRC/ 29 March 2001	RMB6,660,000	100%	100%	Distribution and agency/the PRC
Austar Engineering Technology (Shijiazhuang) Limited (奧星工程科技石家莊有限公司)	Limited liability company	Shijiazhuang, the PRC/ 23 March 2021	RMB38,500,000	100%	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar Pharmaceutical Process Systems Limited (奧星製藥工藝系統有限公司)	Limited liability company	Hong Kong/20 April 2012	HK\$55,812,404	100%	100%	Investment holdings, distribution and agency/Hong Kong
Austar Pharmaceutical Process Systems (Shijiazhuang) Limited (奧星製藥工藝系統(石家莊)有限公司)	Limited liability company	Shijiazhuang, the PRC/ 6 May 2014	RMB43,000,000	100%	100%	Provision of integrated solution of clean room enclosure system/the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(Continued)

The following is a list of principal subsidiaries as at 31 December 2023 and 2022: (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Attributable equity		
			Issued and paid-up capital	Interest of the Group	Principal activities/place of operation
Indirectly owned:					
Austar Pharmaceutical Technology (Suzhou) Limited (奧星製藥科技(石家莊有限公司))	Limited liability company	Hong Kong/ 27 January 2015	HK\$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Equipment (Nanjing) Limited (奧星製藥設備(南京有限公司))	Limited liability company	Hong Kong/ 27 January 2015	HK\$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Equipment (Nanjing) Ltd. (奧星製藥技術設備(南京有限公司))	Limited liability company	Nanjing, the PRC/ 18 May 2015	RMB20,000,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar Biosciences Investment Limited (奧星生物科技投資有限公司)	Limited liability company	BVI/1 April 2015	US\$100	100%	Investment holding/BVI
Austar Biosciences Limited (奧星生物科技有限公司)	Limited liability company	Hong Kong/20 April 2015	HK\$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Investment (Suzhou) Limited (奧星製藥科技投資(石家莊有限公司))	Limited liability company	BVI/12 January 2015	US\$12,048,383	100%	Investment holding/BVI
Austar Pharmaceutical Equipment Investment (Nanjing) Limited (奧星製藥設備投資(南京有限公司))	Limited liability company	BVI/12 January 2015	US\$209,717	100%	Investment holding/BVI

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(Continued)

The following is a list of principal subsidiaries as at 31 December 2023 and 2022: (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Attributable equity		
			Issued and paid-up capital	Interest of the Group	Principal activities/place of operation
Indirectly owned:					
Austar India Investment Ltd. (奧星印度投資有限公司) (Now known as Austar Asia Investment Limited (奧星亞洲投資有限公司)	Limited liability company	BVI/19 July 2017	US\$1	100%	Investment holding/BVI
Austar Hansen lifescience (Hebei) Limited (奥星衡迅生命科技(河北)有限公司)	Limited liability company	Shijiazhuang, the PRC/16 September 2021	RMB14,500,000	100%	Provision of life sciences consumable/the PRC
Shanghai Austar Pharmaceutical Science and Technology Limited (上海奧星醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/7 August 2017	RMB2,150,000	100%	Investment holding/the PRC
Shanghai Aunity Pharmaceutical Science and Technology Limited (上海奧恒醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/24 October 2017	RMB4,200,000	100%	Investment holding/the PRC
Hebei Aunity Engineering Consulting Limited (河北奧恒工程設計諮詢有限公司)	Limited liability company	Hebei, the PRC/2 November 2017	RMB3,822,000	100%	Provision of pharmaceutical engineering design/the PRC
Austarunion India Process Systems Private Limited	Limited liability company	India/29 November 2018	Rupees7,500,000	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/India
Austar Malaysia Limited	Limited liability company	Malaysia/13 November 2019	US\$100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(Continued)

The following is a list of principal subsidiaries as at 31 December 2023 and 2022: (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/place of operation
Indirectly owned:					
AUSTARUNION Malaysia Sdn Bhd	Limited liability company	Malaysia/5 December 2019	RM100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
Austar UK Limited	Limited liability company	England and Wales/31 March 2020	GBP100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and manufacturing/United Kingdom
Austar Europe Asset Holdings Limited (奧星歐洲資產控股有限公司)	Limited liability company	Hong Kong/30 October 2020	HK\$10,000,000	100%	Investment holding/Hong Kong
Cape Europe Limited	Limited liability company	England and Wales/31 March 2023	EUR1,500,000	50%	Investment holding/UK
Cape Europe France SAS	Limited liability company	France/31 March 2022	EUR10,000	50%	Research & Development* Sales RTP product and related services/France
Austar Taiwan Limited (奧星台灣有限公司)	Limited liability company	Taiwan/23 February 2022	TWD1,000,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/Taiwan

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. Giving details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length. Additionally, they believed that no non-controlling interests were material to the Group, and therefore, the non-controlling interests were not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	2023 RMB'000	2022 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	111,728	110,133
	111,728	110,133
Current assets		
Amounts due from subsidiaries	301,948	313,256
Prepayments and other receivables	10,390	10,232
Cash and cash equivalents	13,775	753
Term deposits with initial terms of over three months	5,000	6,281
	331,113	330,522
Total assets	442,841	440,655
Equity and liabilities		
Equity attributable to owners of the company		
Share capital	4,071	4,071
Share premium	314,009	314,009
Capital surplus	97,870	97,870
Currency translation differences	56,550	50,297
Accumulated losses	(31,280)	(27,476)
Total equity	441,220	438,771
Liabilities		
Current liabilities		
Trade and other payables	1,621	1,884
Total liabilities	1,621	1,884
Total equity and liabilities	442,841	440,655

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 26 March 2024 and was signed on its behalf by:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Reserve movement of the Company

	Share premium RMB'000	Capital surplus RMB'000	Currency translation differences RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	314,009	97,870	12,229	(8,794)	415,314
Loss for the year	—	—	—	(18,682)	(18,682)
Currency translation differences	—	—	38,068	—	38,068
At 31 December 2022	314,009	97,870	50,297	(27,476)	434,700
At 1 January 2023	314,009	97,870	50,297	(27,476)	434,700
Loss for the year	—	—	—	(3,804)	(3,804)
Currency translation differences	—	—	6,253	—	6,253
At 31 December 2023	314,009	97,870	56,550	(31,280)	437,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

40. RE-PRESENTATION OF COMPARATIVE FIGURES

As a result of the impact of the matters as disclosed in Note 10 to the financial statements, prior year financial statements had to be re-presented. The following tables show the adjustments recognised for each individual line item. The impact on the current period is not disclosed.

	For the year ended 31 December 2022		
	As previously presented RMB'000	Re-presentation adjustments RMB'000	Re-presented RMB'000
Revenue	2,228,644	(71,775)	2,156,869
Cost of sales	(1,765,975)	97,902	(1,668,073)
 Gross profit	 462,669	 26,127	 488,796
Selling and distribution expenses	(178,659)	1,568	(177,091)
Administrative expenses	(134,614)	5,771	(128,843)
Net impairment gains on financial assets and contract assets	3,212	—	3,212
Research and development expenses	(70,163)	—	(70,163)
Other income	11,163	—	11,163
Other losses — net	(9,630)	(1,072)	(10,702)
 Operating profit	 83,978	 32,394	 116,372
Finance income	2,273	—	2,273
Finance costs	(9,302)	653	(8,649)
 Finance costs — net	 (7,029)	 653	 (6,376)
 Share of net profit of investments accounted for using the equity method	 9,536	 —	 9,536
 Profit before income tax	 86,485	 33,047	 119,532
Income tax expense	(18,741)	(152)	(18,893)
 Profit for the year from continuing operations	 67,744	 32,895	 100,639
Loss for the year from discontinued operations	—	(32,895)	(32,895)
 Profit for the year	 67,744	 —	 67,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

40. RE-PRESENTATION OF COMPARATIVE FIGURES (Continued)

The following tables show the re-presented cash flow information of prior year:

	For the year ended 31 December 2022		
	As previously presented RMB'000	Re-presentation adjustments RMB'000	Re-presented RMB'000
Cash flows used in operating activities			
Continuing operations	(37,926)	(1,206)	(39,132)
Discontinued operations	—	1,206	1,206
Net cash used in operating activities	(37,926)	—	(37,926)
Cash flows used in investing activities			
Continuing operations	(153,143)	218	(152,925)
Discontinued operations	—	(218)	(218)
Net cash used in investing activities	(153,143)	—	(153,143)
Cash flows from financing activities			
Continuing operations	125,301	702	126,003
Discontinued operations	—	(702)	(702)
Net cash from financing activities	125,301	—	125,301

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	2023 RMB'000	For the year ended 31 December			
		2022 RMB'000 (Restated)	2021 RMB'000	2020 RMB'000	2019 RMB'000
Continuing operations					
Revenue	1,763,734	2,156,869	2,015,028	1,295,980	1,049,021
Cost of sales	(1,427,684)	(1,668,073)	(1,536,020)	(972,450)	(764,777)
Gross profit	336,050	488,796	479,008	323,530	284,244
Selling and marketing expenses	(167,323)	(177,091)	(170,289)	(148,692)	(137,077)
Administrative expenses	(133,666)	(128,843)	(128,094)	(98,695)	(108,731)
Net impairment (losses)/gains on financial and contract assets	(31,893)	3,212	(6,243)	(12,139)	(5,109)
Research and development expenses	(55,332)	(70,163)	(65,598)	(48,268)	(42,577)
Other income	11,706	11,163	6,330	8,039	9,153
Other gains/(losses) — net	10,464	(10,702)	196,804	6,955	146
Operating (loss)/profit	(29,994)	116,372	311,918	30,730	49
Finance (cost)/income — net	(11,147)	(6,376)	(3,353)	282	1,967
Share of net profit of investments accounted for using the equity method	6,731	9,536	10,660	10,477	10,192
(Loss)/profit before income tax	(34,410)	119,532	319,225	41,489	12,208
Income tax expense	(379)	(18,893)	(46,601)	(9,884)	(4,744)
(Loss)/profit for the year from continuing operations	(34,789)	100,639	272,624	31,605	7,464
Discontinued operations					
Loss for the period/year from discontinued operations	(116,514)	(32,895)	—	—	—
(Loss)/profit for the year	(151,303)	67,744	272,624	31,605	7,464
(Loss)/profit for the year attributable to:					
Owners of the Company					
— from continuing operations	(32,607)	104,237	277,300	33,100	8,091
— from discontinued operations	(80,866)	(16,776)	—	—	—
	(113,473)	87,461	277,300	33,100	8,091
Non-controlling interests					
— from continuing operations	(2,182)	(3,598)	(4,676)	(1,495)	(627)
— from discontinued operations	(35,648)	(16,119)	—	—	—
	(37,830)	(19,717)	(4,676)	(1,495)	(627)

FIVE-YEAR FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	2023 RMB'000	As at 31 December			
		2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	2,158,972	2,388,763	2,044,777	1,378,844	1,174,322
Total liabilities	1,383,499	1,505,182	1,256,357	854,270	671,697
-----	-----	-----	-----	-----	-----
Total assets less current liabilities	981,285	1,028,998	908,581	573,160	540,535
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Total equity attributable to owners of the Company	773,013	896,944	786,584	517,899	494,537