Morimatsu International Holdings Company Limited
森松國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2155)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the "**Board**") of directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2021 ("**Interim Period**") to the shareholders of the Company.

Financial Highlights

1. Revenue was RMB1,852,632,000
2. Gross profit was RMB483,027,000
3. Net profit was RMB143,531,000
4. Adjusted EBITDA[1] was RMB279,474,000
5. Basic earnings per share was RMB0.19
6. Diluted earnings per share was RMB0.18

1 Adjusted EBITDA = Profit for the period + Income Tax Expenses + Interest Expenses + Depreciation + Amortisation + Share-Based Payment + Listing Expenses

* During the Interim Period, the amount of new orders received by the Group was approximately RMB3,406,699,000 with a year-on-year increase of approximately 78.4%, of which the amount of new orders received from the pharmaceutical industry was approximately RMB910,585,000 with a year-on-year increase of approximately 310.4%.

* The amount of unfulfilled orders on hand was approximately RMB4,880,729,000, representing an increase of approximately 51.4% compared to 30 June 2020 and an increase of approximately 47.2% compared to 31 December 2020.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
for the six months ended 30 June 2021 – unaudited

	Note	Six months ended 30 June **2021** ***RMB'000*** **(unaudited)**	 2020 *RMB'000* (unaudited)
Revenue	*3*	**1,852,632**	1,441,933
Cost of sales		**(1,369,605)**	(1,011,486)
Gross profit		**483,027**	430,447
Other income/(loss)	*4*	**4,485**	(3,067)
Selling and marketing expenses		**(44,071)**	(32,742)
General and administrative expenses		**(186,155)**	(102,696)
Research and development expenses		**(77,436)**	(45,456)
Profit from operations		**179,850**	246,486
Finance costs	*5(a)*	**(11,576)**	(3,807)
Profit before taxation	*5*	**168,274**	242,679
Income tax	*6*	**(24,743)**	(32,131)
Profit for the period		**143,531**	210,548
Attributable to:			
Equity shareholders of the Company		**143,531**	210,548
Profit for the period		**143,531**	210,548
Earnings per share	*7*		
Basic (RMB)		**0.19**	0.28
Diluted (RMB)		**0.18**	0.28

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2021 – unaudited

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**143,531**	210,548
Other comprehensive income for the period		
Item that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	**868**	(171)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	**(1,422)**	380
Other comprehensive income for the period	**(554)**	209
Total comprehensive income for the period	**142,977**	210,757
Attributable to:		
Equity shareholders of the Company	**142,977**	210,757
Non-controlling interests	**–**	–
Total comprehensive income for the period	**142,977**	210,757

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

at 30 June 2021 – unaudited

	Note	**As at 30 June 2021** ***RMB'000*** **(unaudited)**	As at 31 December 2020 *RMB'000*
Non-current assets			
Property, plant and equipment		**986,783**	838,527
Right-of-use assets		**108,940**	107,851
Intangible assets		**40,686**	29,901
Deferred tax assets		**1,503**	745
Other non-current assets		**10,487**	4,005
		1,148,399	981,029
Current assets			
Inventories		**936,872**	804,069
Contract assets		**346,958**	246,061
Trade and other receivables	*8*	**1,109,559**	578,858
Financial assets measured at FVPL		**80**	–
Cash and cash equivalents		**898,837**	424,428
		3,292,306	2,053,416
Current liabilities			
Trade and other payables	*9*	**1,014,595**	724,551
Contract liabilities		**1,136,135**	842,649
Interest-bearing borrowings		**578,857**	443,532
Lease liabilities		**2,434**	882
Current taxation		**19,668**	6,201
		2,751,689	2,017,815
Net current assets/(liabilities)		**540,617**	35,601
Total assets less current liabilities		**1,689,016**	1,016,630

	Note	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000
Non-current liabilities			
Lease liabilities		**2,775**	1,734
Deferred tax liabilities		**498**	2,272
Provisions		**14,340**	13,913
Deferred income		**376**	399
Other non-current liabilities		**1,983**	–
		19,972	18,318
Net assets		**1,669,044**	998,312
Capital and reserves			
Share capital	*10(b)*	**494,153**	173
Reserves		**1,174,891**	998,139
Total equity attributable to equity shareholders of the Company		**1,669,044**	998,312
Total equity		**1,669,044**	998,312

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)39,. It was authorised for issue on 15 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the accountants' report in appendix I to the Company's prospectus dated 28 June 2021, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the production and sales of various pressure equipment.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– traditional pressure equipment	**1,104,762**	831,050
– reactor	**414,883**	326,760
– heat exchanger	**220,716**	254,864
– tank	**338,071**	214,338
– tower	**131,092**	35,088
– modular pressure equipment	**701,584**	578,407
– others*	**9,852**	9,246
Sales of products	**1,816,198**	1,418,703
– Pressure equipment design, validation, and maintenance service	**36,434**	23,230
Service	**36,434**	23,230
	1,852,632	1,441,933

* Others include primarily sales of raw materials and scrap materials.

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 3(a)(ii).

The Group's customer base is diversified and includes one and three customers with whom transactions have exceeded 10% of the Group's revenues of six months ended 30 June 2021 and 2020 respectively. Revenues from those customers during the six months ended 30 June 2021 and 2020 are set out below:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	**186,318**	*
Customer B	*	177,570
Customer C	*	156,963
Customer D	*	144,679

* Less than 10% of the Group's revenue for the corresponding years.

(ii) *Geographic information*

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

The Group's property, plant and equipment, intangible assets are mainly located in Mainland China and accordingly, no geographical information of non-current assets is presented.

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Mainland China	**1,351,257**	801,562
North America	**62,658**	69,669
Asia (excluding mainland China)	**111,038**	383,721
Europe	**157,051**	148,510
Others *(Note)*	**170,628**	38,471
Total	**1,852,632**	1,441,933

Note: Others mainly included Brazil in South America, Nigeria and South Africa in Africa and Australia and New Zealand in Oceania.

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision makers for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sale of comprehensive pressure equipment.

4 OTHER INCOME/(LOSS)

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(i)*	**2,851**	7,833
Interest income	**373**	1,151
Net realised gains on financial assets measured at fair value through profit or loss	**1,148**	1,548
Net foreign exchange losses	**(1,344)**	(14,202)
Changes in fair value of financial assets and liabilities	**80**	106
Net loss on disposal of property, plant and equipment	**(239)**	(134)
Others	**1,616**	631
	4,485	(3,067)

(i) Government grants mainly includes: (a) grants relating to expenses which represent unconditional grants received from local government to encourage the Group's development; (b) grants relating to assets which represent the amortisation of deferred income.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on interest-bearing borrowings	**11,461**	3,768
Interest on lease liabilities	**44**	39
Interest on acquisition of intangible assets by instalments	**71**	–
	11,576	3,807
(b) Staff costs:		
Salaries, wages and other benefits	**301,476**	230,472
Equity-settled share-based payment expenses *(Note 10(c))*	**33,775**	–
Contributions to defined contribution retirement plans *(i)*	**31,406**	14,751
	366,657	245,223

(i) Employees of the Group's PRC subsidiary are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiary contributes funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(c) Other items:		
Amortisation of intangible assets	**7,122**	1,744
Depreciation charge		
– owned property, plant and equipment	**36,553**	30,805
– right-of-use assets	**2,328**	2,314
Impairment losses		
– trade receivables	**4,726**	(1,279)
– other receivables	**(322)**	(73)
– contract assets	**155**	194
Research and development costs *(i)*	**77,436**	45,456
Increase in provisions	**1,412**	3,232
Cost of inventories *(ii)*	**1,369,605**	1,011,486
Inventory write-down and losses net of reversals	**7,541**	24,063

(i) Research and development costs included staff costs of RMB52,479,000 (six months ended 30 June 2020: RMB35,993,000), depreciation and amortisation expenses of RMB2,898,000 (six months ended 30 June 2020: RMB2,513,000) for the six months ended 30 June 2021, which are also included in the respective total amounts disclosed separately above or in Note 5(b).

(ii) Cost of inventories included staff costs of RMB222,887,000 (six months ended 30 June 2020: RMB153,304,000), depreciation and amortisation expenses of RMB29,978,000 (six months ended 30 June 2020: RMB23,578,000) for the six months ended 30 June 2021, which are also included in the respective total amounts disclosed separately above or in Note 5(b).

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
Provision for the year	**27,275**	32,987
Deferred tax:		
Origination and reversal of temporary differences	**(2,532)**	(856)
Income tax from continuing operation	**24,743**	32,131

(i) Under the Corporate Income Tax Law of the PRC (the "**CIT Law**"), the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate unless otherwise specified.

Pursuant to the income tax rules and regulations of Hong Kong, the Company and the Group's subsidiary in Hong Kong was liable to the Hong Kong Profits Tax at a rate of 16.5% for the six months ended 30 June 2021 and 2020. No provision for Hong Kong Profits Tax was made for the company incorporated in Hong Kong as the company did not have income subject to Hong Kong Profits Tax for the six months ended 30 June 2021 and 2020.

Pursuant to the income tax rules and regulations of Sweden, Pharmadule Morimatsu AB was liable to the Sweden Corporate Tax at a rate of 20.6% and 21.4% the six months ended 30 June 2021 and 2020 respectively.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc was liable to the United States Corporate Tax at a rate of 21% for the six months ended 30 June 2021 and 2020, which represents federal income tax at a rate determined by income ranges.

Pursuant to the income tax rules and regulations of India, Pharmadule Engineering India Private Limited was liable to the Indian Corporate Tax at a rate of 25% for the six months ended 30 June 2021 and 2020. No provision for Indian Corporate Tax was made for Pharmadule Engineering India Private Limited as the company did not have income subject to Indian Corporate Tax for the six months ended 30 June 2021 and 2020.

Pursuant to the income tax rules and regulations of Japan, Morimatsu Technology and Service Company Limited was liable to the Japan Corporate Tax at a rate of 33.28% for the six months ended 30 June 2021 and 2020. No provision for Japanese Corporate Tax was made for Morimatsu Technology and Service Company Limited as the company did not have income subject to Japanese Corporate Tax for the six months ended 30 June 2021 and 2020.

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. (established on 26 November 2020) was liable to the Italy Corporate Tax at a rate of 24% for the six months ended 30 June 2021. No provision for Italy Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italy Corporate Tax for the six months ended 30 June 2021.

(ii) The subsidiaries of the Group are entitled as a High and New Technology Enterprise as follows.

	Applicable preferential tax rate	Period
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (上海森松製藥設備工程有限公司)*	15%	2020 – 2021
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("**Morimatsu Heavy Industry**") (森松 (江蘇) 重工有限公司)*	15%	2020 – 2021

* The English translation of these entities is for reference only. The official name of the company established in the PRC is in Chinese.

(iii) Under the CIT Law of the PRC and its relevant regulation, qualified research and development expenses are subject to income tax deduction at 175% on the amount actually incurred for each of the year ended 31 December 2020, and at 200% on the amount actually incurred for the year ended 31 December 2021.

(iv) According to the CIT Law and its implementing regulations of the CIT Law, for dividends payable to investors that are non-resident enterprise (who do not have organisations or places of business in the PRC, or that have organisations and places of business in PRC but to whom the relevant income tax is not effectively connected), 10% of the PRC withholding tax shall be paid, unless there are any applicable tax treaties are reached between the jurisdictions of non-resident enterprises and the PRC which may reduce or provide exemption to the relevant tax. Similarly, any gain derived from the transfer of shares by such investor, if such gain is regarded as income derived from sources within the PRC, shall be subject to 10% PRC income tax rate (or a lower tax treaty rate (if applicable)).

(v) Under PRC CIT law, the deductible tax losses expire within 5 years from the year when such losses were incurred. It was mainly arising from the Morimatsu (China) Investment Co., Ltd. whose principal activity was investment holding.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB143,531,000 (six months ended 30 June 2020: RMB210,548,000) and the weighted average of 752,055,000 ordinary shares (2020: 750,000,000 shares, after adjusting for the bonus issue in 2021) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB143,531,000 (six months ended 30 June 2020: RMB210,548,000) and the weighted average number of ordinary shares of 784,355,000 (2020: 750,000,000 shares, after adjusting for the bonus issue in 2021).

8 TRADE AND OTHER RECEIVABLES

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000
Bills receivable	**292,498**	19,662
Trade debtors net of loss allowance	**637,992**	455,523
Other debtors	**20,927**	21,069
Prepaid income tax	**–**	491
Financial assets measured at amortised cost	**951,417**	496,745
Prepayments	**158,142**	82,113
	1,109,559	578,858

As of the end of the reporting period, an ageing analysis of the trade debtors (which are included in trade and other receivables), based on the date of invoice and net of loss allowance, is as follows:

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000
Within 3 months	**328,619**	216,703
More than 3 months but less than 1 year	**240,730**	141,118
More than 1 year but less than 2 years	**57,770**	91,900
More than 2 years	**10,873**	5,802
	637,992	455,523

Trade debtors and bills receivable are mainly due within 30 days from the date of invoice.

9 TRADE AND OTHER PAYABLES

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000
Bills payable	**34,982**	–
Trade payables	**743,068**	433,176
Other payables and accruals	**236,545**	291,375
Financial liabilities measured at amortised cost	**1,014,595**	724,551

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	As at 30 June 2021 *RMB'000* **(unaudited)**	As at 31 December 2020 *RMB'000*
Within 3 months	**595,555**	327,383
More than 3 months but less than 6 months	**89,467**	69,795
More than 6 months but less than 12 months	**44,967**	21,925
More than 1 year but less than 2 years	**10,093**	10,112
More than 2 years	**2,986**	3,961
	743,068	433,176

10 CAPITAL AND RESERVES

(a) Dividend

The Board has resolved not to propose any dividend for the six months ended 30 June 2021 (30 June 2020: nil).

(b) Share capital

(i) Bonus issue

Pursuant to the written resolution dated 31 May 2021, the Company allotted and issued 749,800,000 shares of nil consideration to the then existing shareholders. No equity was changed after the allotment.

(ii) Issuance of ordinary shares upon initial public offering

On 28 June 2021, the Company issued 250,000,000 ordinary shares at a price of HK$2.48 per share by way of public offering of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited. Net proceeds of RMB493,980,000 (after offsetting listing expenses of RMB21,891,000) from such issue amounted to RMB515,871,000, which was recorded in share capital.

(c) Equity settled share-based transactions

The Company has a share option scheme (the "Pre-IPO Share Option Scheme") which was adopted on 1 July 2020 whereby the directors of the Company are authorised, at their discretion, to invite employees, directors of the Group and an associate of one director of the Group, to take up options at HK$1.00 for each acceptance of the share offer. The option vests after one year from the listing date (28 June 2021) and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

As at 1 July 2020, the Company has conditionally granted options to subscribe for an aggregate of 132,380,000 shares to 27 participants (including employees, directors of the Group and an associate of one director of the Group) at consideration of an option price of HK$0.0001 for each acceptance of an offer of options under the Pre-IPO Share Option Scheme.

The Company recognised an expense of RMB33,775,000 in the six months period ended 30 June 2021, which is the fair value amount of the options vested on the grant date, and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses with a corresponding credit in other reserve, respectively.

No options were exercised during the six months ended 30 June 2021.

INDUSTRY AND BUSINESS REVIEW

The board (the "**Board**") of directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**") is pleased to present the unaudited consolidated interim results for the six months ended 30 June 2021 (the "**Interim Period**") of the Company and its subsidiaries (collectively, the "**Group**") to the shareholders of the Company.

PHARMACEUTICAL INDUSTRY AND BIOPHARMACEUTICAL FIELD

The 14th Five-Year (2021-2025) Plan for Economic and Social Development and Long-Range Objectives through the Year 2035 of the People's Republic of China lays emphasis on seizing opportunities for future industrial development; fostering pioneering and pillar industries; and promoting the integration, clustering and ecological development of strategic emerging industries, with an aim for such industries to contribute to at least 17% of the GDP. In particular, the biopharmaceutical industry should build and enhance their whole-industry-chain capabilities; lay down the foundation for continuous development of new drugs and therapies; and focus on developing disease treatment, early diagnosis, treatment techniques and pharmaceuticals, rehabilitation and remanufactured traditional Chinese medicine, energy biorefining, chemical and material biomanufacturing, bioreactor and equipment technology.

The global bio-drug market has been growing rapidly in recent years, with bio-drugs accounting for six of the top ten drugs in terms of global sales in 2020. From 2014 to 2018, the growth rate of the bio-drugs market also exceeded that of the global drug market during the same period. According to the Vision Research Report, driven by the launch of innovative drugs, the rise of emerging markets and other factors, the global bio-drug market is expected to enter into a faster growth stage from 2018 to 2023, reaching approximately USD556.5 billion by 2023 at a CAGR of 18.4%, and will further grow to approximately USD 1,383.9 billion by 2030 at a CAGR of 13.9%.

The Chinese bio-drug market is still at an early stage of development and has tremendous growth potential. Of the top ten drugs ranked by sales amount in China in 2020, three were bio-drugs. Following that, bio-drugs in research and development pipelines and new product launches also continued to grow rapidly, with quite a few significant ones with great potential and impetus. According to the report of Frost & Sullivan, in the future, driven by factors such as incentives for bio-drug innovation, improved patients' affordability, and strong capital support, the Chinese bio-drug market will continue to grow at a rapid pace and is expected to reach approximately USD96.9 billion and USD199.4 billion by 2023 and 2030, respectively, representing a CAGR of approximately 19.6% from 2018 to 2023, and 10.9% from 2023 to 2030.

With the rapid development of China's biopharmaceutical industry, pharmaceutical companies will accelerate capacity expansion to improve their competitiveness, which will drive the development of the pharmaceutical equipment market, Although imported equipment has long dominated the high-end market, the market for high-quality equipment made in China will have ample room for growth in the future, due to market competitiveness in terms of price, delivery time and service.

The Group was the first to enter the field of biopharmaceuticals in China and the first to utilise core equipment and total engineering solutions for the biopharmaceutical industry in China. As core components of the biopharmaceutical operation, bio-reactors and fermenters need to be deployed in large quantities for the production of biological products such as nucleic acid drugs, antibody-drug conjugates, vaccines, antibodies and insulin. Through years of technological development and marketing, the Group has kept pace with world-class companies in terms of product scale, quality and recognition in the industry. Our bio-reactors, fermenters and process system modules have been exported to developed countries in Europe and the United States, including the bioreactor with one of the largest capacities (20,000L) in the industry ordered by a leading international biopharmaceutical company.

The COVID-19 pandemic (the "**Pandemic**") is expected to bring new business opportunities of RMB15-20 billion to China's pharmaceutical equipment industry. As a leading provider of primary modular, digital and intelligent plant solutions for the mRNA COVID-19 vaccine projects in China, the Group constantly deepens its import substitution strategy, and has provided, and keeps providing top-grade modular, digital and intelligent plant solutions to vaccine manufacturers. Meanwhile, from the perspective of the current situation in China, domestic biopharmaceutical companies have not achieved highly automated, informationised, and intelligent manufacturing, and there is a long way to go to realize the goal of "Pharmaceutical Industry 4.0". The Group is the first company to plan for automated, informationised, intelligent and digital products and services in China. By continuously iterating high-value added products and services, the Group have developed the first-mover advantage in the market that enables it to serve and develop customer bases in a better way.

In addition to better serving domestic customers and promoting the development of the domestic industry, the Group is also continuously enhancing its international marketing strategy and has established sound relationships with over 85% of the top 20 pharmaceutical companies across the globe, making progress in becoming a global partner of these multinational companies.

FIELD OF RAW MATERIALS OF POWER BATTERY (MINING AND METALLURGY INDUSTRIES)

In 2020, the State Council adopted and implemented the New Energy Vehicle Industry Development Plan (2021–2035), requiring the industry to adhere to electric, networking and intelligent development directions; thoroughly implement the national strategy of new energy vehicle development; focus on integration and innovation; make breakthroughs in key and core technologies; enhance technical capability of the industry; create biosystems for emerging industries; improve infrastructure systems; optimize industrial development environment; and promote high-quality development of China's new energy vehicle industry. According to the China Association of Automobile Manufacturers (CAAM), the sales volume of new energy vehicles is expected to grow by 76% in 2021; as predicted by the Ministry of Industry and Information Technology (MIIT), the sales volume of new energy vehicles will reach 2 million in China in 2021, and will maintain continuous growth.

China's investment across the industry chain has exceeded RMB2 trillion. The sector is increasingly becoming a new impetus for development, with sales volume ranking first in the world for five consecutive years and cumulative promotion volume of over 4.8 million cars (approx. 1.7% of total car ownership), accounting for more than half of the world total. The industry has achieved various technical breakthroughs, including effective communication between the upstream and downstream industry chain, and innovation in key areas such as batteries, electric machinery and control systems. For example, power batteries have reached a unit density of 270wh/kg at a unit price of RMB1.0/wh, signaling a 2.2 times increase in unit density and an 80% decrease in unit price in comparison to 2012, placing China's power battery technology at the forefront of the world. In addition, there are many breakthroughs in new energy vehicle products, with the quality of product supply continuously improving, and the range of mass-produced models exceeding 500 km, consumer recognition has grown increasingly high.

Ternary polymer lithium batteries, one of the mainstream technologies for new energy vehicle power batteries on the current market, relies on metal nickel as the main raw material. The growing demand for power batteries also represents the growing demand for nickel and electron grade nickel metal materials. In March 2020, the Group signed a long-term global strategic cooperation agreement with a leading company in the industry to provide core reactors and modular reaction units for its power battery raw material projects in China and worldwide. In May 2020, the Group provided modular pilot plants and core reactors for an Indonesian nickel resource (raw material of power battery) project, for a company engaged in the business of mining development and metallurgical lithium battery new materials. This was the first time the modular design, building and delivery for similar projects were realized in the world, remarking an unprecedented achievement in the industry.

As a core equipment provider of power battery raw material suppliers, the Group will continue to deliver highly efficient and reliable reactors and modular reaction units to the suppliers in the field. By forging strategic partnerships, the Group continuously participates in the early research and development efforts of major enterprises in the field. It has expanded the scope of its products and services to increase added value of its products and provide turn-key solutions to customers through joint laboratories, field support and resident after-sale service staff for overseas projects as well as other means.

CHEMICAL INDUSTRY

As an essential product for industrial production and civilian use, and with a large number of special chemicals being used in anti-epidemic products, the demand for chemicals has risen since 2000. Therefore, the impact of the Pandemic since 2020 has had a limited and manageable impact on the chemical market. With the economic recovery beginning in the second half of 2020, the STOXX Europe 600 shows the rate of return of the chemical industry in the past year was high at 12.04%, topping the list of all industries. China's SWS index also shows that the chemical industry index rose by 25.19% from January to October 2020, ahead of the 15.95% of Shanghai Composite Index rise. According to Roland Berger, in 2021, institutional investors and industrial players will fully leverage the rising trend, and strengthen their industry distribution, while global mergers and acquisitions in the chemical industry will become more active, and the capital market will continue to improve.

In the chemical industry, being one of the principal businesses of the Group, both the amount of new orders and the amount of orders on hand have set new records of the Group. Meanwhile, the Group persistently deepens and reinforces the cooperation with leading companies in the industry, increasing its investment in research and development, targeting high-performance material, degradable material, raw material of degradable material, etc. to be prepared for the future market and to provide a full range of services and products to existing customers. In addition, by moderately expanding its production capacity as planned, the Group maintains and constantly develops its competitive advantages to seize opportunities of local and overseas markets.

As a major supplier of chemical equipment in China, the Group mainly serves the projects of international petroleum giants within and outside of China, including assets investment projects and periodic maintenance and replacement projects. The products it provides are mainly core equipment, import-substitution equipment and modular equipment. In recent years, with China's vigorous promotion of renewable, recyclable green energy and environmentally friendly materials, the Group is also actively involved in the field of biodegradable materials, raw materials for biodegradable materials, and high-performance plastic materials, providing core production equipment for chemical projects prioritizing environmental protection.

In the first half of 2021, the Group reached an agreement of intent with an international leading chemical company to design and build the world's first modular advanced chemical materials production equipment. Out of all the global production facilities owned by the company, this is the first production equipment designed and constructed based on the state-of-the-art modular concept, which is expected to be extended to the company's major production facilities worldwide.

ELECTRONIC CHEMICAL INDUSTRY

As a high-tech product that combines electronic material and fine chemicals, electronic chemicals are advanced, precise and cutting-edge. With technological progress, the applications of electronic chemicals have been growing over time. In particular, the semiconductor sector, photoresist products, chip products and solar photovoltaic sector herald vast market potential and broad prospects for development.

In the electronic chemical industry, particularly the field of high-purity chemical agents, the Group has become an outstanding supplier of equipment for producing top-grade electronic chemicals, including G5 PPT high-purity hydrogen peroxide, high-purity ammonium hydroxide, and high-purity sulfuric acid, and has maintained long-term and close relationships with multiple well-known domestic electronic chemical companies. This year, the Group provided key equipments in a PPT high-purity sulfuric acid project in Nantong for a leading company of electronic chemicals and photoresists in China. With the completion of the project, China has seen its largest, world-class semiconductor-grade electronic sulfuric acid production base. So far, the Group has furnished several sets of equipment to the company, helping it become one of the very few material companies in the world that can supply G5 high-purity sulfuric acid, G5 high-purity hydrogen peroxide and G5 high-purity ammonium hydroxide at the same time, and domestically producing three high-purity reagent materials, which are the most used in China's integrated circuits, which is an important step in enhancing the country's core competitiveness.

As predicted by China Photovoltaic Industry Association (CPIA), the annual average capacity of photovoltaic installations in China will be 70–90 million kW during the 14th Five-Year Period. The new energy represented by photovoltaics is expected to be a key driving force to China's energy growth. In the first half of 2021, China's polysilicon output hit 238,000 tonnes, up 16.1% year on year, silicon wafer output hit 105GW, up 40.0% year on year. From January to May 2021, the export volume of photovoltaic products from China was approximately USD 9.86 billion, up 35.6% year on year. As the first advanced equipment manufacturer in China that stepped into the field of photovoltaic products, the Group mainly produces chemical vapor deposition (CVD) reactors. The Group is currently one of the most important core equipment suppliers to the photovoltaic industry and continue to provide products and services to leading international companies in the industry.

FIELD OF DIGITAL OPERATION AND MAINTENANCE

The worldwide outbreak of the Pandemic beginning from 2020 has accelerated the digitalization of modern enterprises, with more companies investing in data accumulation, data management and data exchange. This includes building automated operations, automated upgrades and automated maintenance technologies based on big data and cloud technologies

In order to keep promoting continuous innovation and better profitability, an enterprise needs to make better use of existing data, establish more efficient manufacturing and operations and maintenance processes, and empower itself with the information technology, big data, etc. During the enterprises' digital transformation, the equipment industry will embrace great opportunities for development.

The Group concentrates on the whole life-cycle service of plants from design and construction to operation. Software is embedded in our high-quality engineering design and construction. The plant digital foundation in the pharmaceutical and chemical sectors is built through digital EPC to safeguard the plant operation and realize visualized plant operations and maintenance. The interconnection empowers the plant operation and optimization. The data as "energy" provides plants with a new "engine" that constructs the expressway for information access and build virtual and portable plants in parallel to the physical one. Based on the big data technology, the Group explore and put into practice the digital, intelligent twin plant in different sectors through intelligent upgrading.

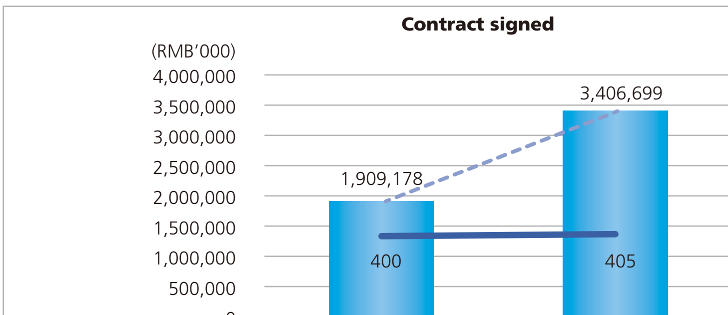
The Group is committed to investing more in research and development and market development in digital operations and maintenance. It has successfully launched digital operations and maintenance product packages to existing customers and projects in progress, and believes breakthroughs will be made in its broad customer base in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE FACTS

During the Interim Period, the Group proactively responded to the impact of COVID-19 by maintaining diversification in markets, products and services and enhancing management efficiency and capacity utilization. In the first half of 2021, the Group took initiative and achieved historical growth in each of its main businesses, including:

1. The amount of new orders received totaled to approximately RMB3,406,699,000 (the same period in 2020: approximately RMB1,909,178,000). In the pharmaceutical industry (including biopharmaceutical field), raw materials of power battery field (mining and metallurgical industry) and electronic chemical industry, the amount of new orders received has respectively exceeded the total amount of orders received in 2020. The expected amount of orders received in 2021 will significantly exceed the amount of orders received in 2020.



	First half of 2020	First half of 2021
Contract amount	1,909,178	3,406,699
Contract quantity	400	405

2. The amount of new orders from the pharmaceutical industry totaled to approximately RMB910,585,000, which has exceeded the amount of new orders received from this industry in 2020 (the same period in 2020: approximately RMB221,879,000). The expected amount of orders received in 2021 will be more than RMB1,485,000,000 and the expected annual growth rate will exceed 77.5%.

   2.1 According to the analysis by field, the amount of new orders from the biopharmaceutical field totaled to approximately RMB797,101,000, which has exceeded the amount of new orders received from this field in 2020 (total amount received in 2020: approximately RMB555,354,000).

   2.1.1 According to the analysis by product category in the biopharmaceutical field, the amount of new orders for the bioreactor/fermenter series products totaled to approximately RMB354,727,000, which has exceeded the amount of new orders received from this field in 2020 (total amount received in 2020: approximately RMB74,767,000).

3. The amount of new orders from the raw materials of power battery field (mining and metallurgical industry) totaled to approximately RMB256,094,000 and continues to maintain robust growth. The expected amount of orders received in 2021 will be over RMB400,000,000.

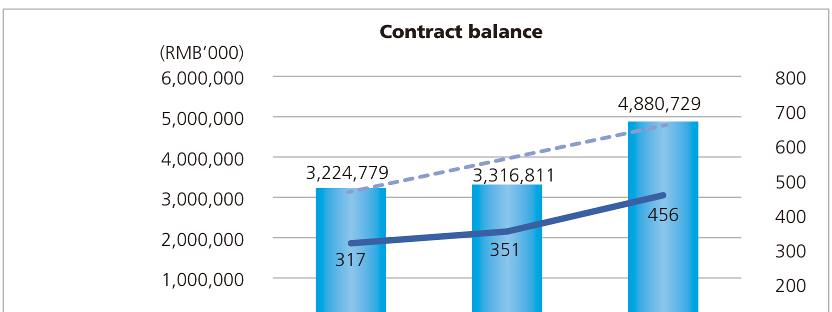
4. The amount of new orders from the chemical industry totaled to approximately RMB1,440,407,000 (the same period in 2020: approximately RMB1,410,688,000).

   The main application fields are:

– Raw materials of degradable plastics	RMB327,483,000
– Raw materials of High-performance materials	RMB161,864,000
– Papermaking	RMB154,922,000
– Industrial waste disposal	RMB50,268,000
– Degradable plastics	RMB43,186,000
– High-performance chemical materials	RMB32,316,000

5. In the field of high-purity reagents of the electronic chemical industry, the Group achieved a breakthrough in the sales of large-scale projects of electron-grade ammonium hydroxide and electron-grade ammonium fluoride solution, and obtained new orders amounting to approximately RMB24,260,000.

   As at 30 June 2021, the total amount of the unfulfilled orders on hand of the Group was approximately RMB4,880,729,000, and the order amount on hand at 30 June 2020 and 31 December 2020 was approximately RMB3,224,779,000 and approximately RMB3,316,811,000. It is estimated that the overall performance of the Group in 2021 will conform to the comprehensive growth forecast.



	End of June 2020	End of December 2020	End of June 2021
Contract amount	3,224,779	3,316,811	4,880,729
Contract quantity	317	351	456

Planned Significant Investment

In the second half of 2021, the Group plans to sign a contract to invest in the project of manufacturing base for producing high-end biopharma equipment (adjacent to the Group's production base in Nantong, which is part of the "**Chinese Pharmaceutical Valley**" in Suzhou). The project mainly engages in manufacturing of high-end intelligent equipment and special precision complete plant in the fields of biopharmaceuitical, daily chemical and electronic chemicals. As planned, the land used will be more than 200,000 square meters. Changshu Economic and Technological Development Zone Administration Committee plans to grant the land use right to the Group by two phases. The land used for phase I is about 130,000 square meters, and the total investment is about USD180 million. The source of funding is expected to come from the funds raised through IPO, the Group's operating income, bank loans, etc. The details will be determined when the project plan is finalized.

In the second half of 2021, the capacity expansion of Nantong production base of the Group will be enhanced in an orderly manner. The production capacity is expected to be achieved in the first half of 2022. The source of base construction funds are from the funds raised through IPO and the Group's own capital.

In the second half of 2021, the international strategy will be advanced with the funds raised through IPO of the Group. The Group will sign an agreement on establishing a joint venture in Malaysia as planned, and advance the in-depth construction of overseas manufacturing base, an engineering centre in Japan and our subsidiary in Italy.

FINANCIAL DATA

Revenue

The revenue of the Group increased by approximately 28.5% from approximately RMB1,441,933,000 for the six months ended 30 June 2020 to approximately RMB1,852,632,000 for the six months ended 30 June 2021, primarily attributable to 1) the significant increase of product delivery in the chemical industry, and the strong growth of products applied to the new chemical fields such as high-performance chemical materials, raw materials of degradable plastics and industrial waste disposal; and 2) the increase of delivery in the pharmaceutical industry in the first half of the year due to the increase of orders from the fields of COVID-19 vaccine and biopharmaceutical.

	Six months ended 30 June					
	2021		2020		Increase	Growth rate
Revenue	***RMB'000***	*%*	*RMB'000*	*%*	*RMB'000*	*%*
	(Unaudited)		(Unaudited)			
Electronic chemical	**89,508**	**4.8%**	18,212	1.3%	71,296	391.5%
Chemical	**864,605**	**46.7%**	537,867	37.3%	326,738	60.7%
Personal care chemical	**64,928**	**3.5%**	76,537	5.3%	(11,609)	(15.2%)
Raw materials of power battery (mining and metallurgical)	**31,995**	**1.7%**	139,434	9.7%	(107,439)	(77.1%)
Oil and gas	**181,616**	**9.8%**	81,965	5.7%	99,651	121.6%
Pharmaceutical	**551,020**	**29.8%**	451,948	31.3%	99,072	21.9%
Others	**68,960**	**3.7%**	135,970	9.4%	(67,010)	(49.3%)
Total	**1,852,632**	**100.0%**	1,441,933	100.0%	410,699	28.5%

Cost of Sales

The cost of sales of the Group increased by approximately 35.4% from approximately RMB1,011,486,000 for the six months ended 30 June 2020 to approximately RMB1,369,605,000 for the six months ended 30 June 2021. The growth rate of cost of sales was slightly higher than that of our revenue, mainly attributable to 1) the social insurance reduction and exemption granted by the government due to COVID-19 for the six months ended 30 June 2020 and normal payment of such contributions for the six months ended 30 June 2021; and 2) recruiting new employees to meet the growing demand for production capacity after the Pandemic, and encouraging employees to avoid holiday season for family visit and work overtime during the Spring Festival, resulting in an increase in labor costs.

	Six months ended 30 June			
	2021		2020	
	RMB'000	*%*	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Raw material and consumables	**881,160**	**64.3%**	671,758	66.4%
Direct labour costs	**194,947**	**14.2%**	130,540	12.9%
Outsourcing fees	**92,388**	**6.8%**	61,231	6.1%
Installation and repair cost	**79,060**	**5.8%**	45,565	4.5%
Depreciation	**29,978**	**2.2%**	23,578	2.3%
Impairment losses	**6,703**	**0.5%**	17,668	1.8%
Others (indirect labour cost + design fees)	**85,369**	**6.2%**	61,146	6.0%
Total	**1,369,605**	**100.0%**	1,011,486	100.0%

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by approximately 12.2% from approximately RMB430,447,000 for the six months ended 30 June 2020 to approximately RMB483,027,000 for the six months ended 30 June 2021. Such increase was primarily because the Group made full use of the current production capacity, improved turnover rate and raised efficiency to achieve the growth of both revenue and gross profit of the Group in the first half of the year.

The gross profit margin decreased by approximately 3.8% from approximately 29.9% for the six months ended 30 June 2020 to approximately 26.1% for the six months ended 30 June 2021, mainly attributable to 1) the social insurance reduction and exemption granted by the government due to COVID-19 for the six months ended 30 June 2020 and normal payment of such contributions for the six months ended 30 June 2021; and 2) recruiting new employees to meet the growing demand for production capacity after the Pandemic, and encouraging employees to avoid holiday season for family visit and work overtime during the Spring Festival, resulting in an increase in labor costs.

Selling and Marketing Expenses

The selling and marketing expenses of the Group increased by approximately 34.6% from approximately RMB32,742,000 for the six months ended 30 June 2020 to approximately RMB44,071,000 for the six months ended 30 June 2021. Such expenses represented approximately 2.4% of the total revenue of the Group for the six months ended 30 June 2021, basically equivalent to approximately 2.3% for the six months ended 30 June 2020.

General and Administrative Expenses

The general and administrative expenses of the Group increased by approximately 81.3% from approximately RMB102,696,000 for the six months ended 30 June 2020 to approximately RMB186,155,000 for the six months ended 30 June 2021. Such increase was primarily because of 1) the listing expenses incurred of approximately RMB19,846,000, representing an increase of RMB12,592,000 as compared with approximately RMB7,254,000 for the same period in 2020; 2) the equity-settled share-based payment expenses of approximately RMB33,775,000, as the equity-based incentive scheme was adopted on 1 July 2020, while no such expenses were incurred in the first half of 2020; and 3) the payment of social insurance being recovered in 2021, representing an increase of approximately RMB3,782,000 as compared with the same period in 2020. By taking no account of the above three changes, the amount of general and administrative expenses would be approximately RMB136,006,000 for the six months ended 30 June 2021, representing approximately 7.3% of the total revenue of the Group, which is basically equivalent to approximately 7.1% of the total revenue for the six months ended 30 June 2020.

Research and Development Expenses

The research and development expenses of the Group increased by approximately 70.4% from approximately RMB45,456,000 for the six months ended 30 June 2020 to approximately RMB77,436,000 for the six months ended 30 June 2021. Such expenses represented approximately 4.2% of the total revenue of the Group for the six months ended 30 June 2021, representing an increase of approximately 1.0% as compared with approximately 3.2% for the six months ended 30 June 2020, mainly because the Group increased investment in research and development of new products and new technologies, and carried out school-company joint programs and other scientific research programs.

Financial Costs

The financial costs of the Group increased by approximately 204.1% from approximately RMB3,807,000 for the six months ended 30 June 2020 to approximately RMB11,576,000 for the six months ended 30 June 2021, mainly due to the interest accrued for the new bank loans of the Group after May 2020.

Net Profit for the Period

During the Interim Period, the net profit of the Group amounted to approximately RMB143,531,000, representing a decrease of approximately RMB67,017,000 as compared with approximately RMB210,548,000 for the same period in 2020, primarily because 1) the government granted social insurance reduction and exemption of approximately RMB26,450,000 due to COVID-19 in the first half of 2020, and the Group paid social insurance regularly in 2021; 2) to meet the growing demand for production capacity after the Pandemic by recruiting new employees and encouraging employees to avoid holiday season for family visit during the Spring Festival, the labor costs increased by approximately RMB30,904,000; 3) the listing expenses were approximately RMB19,846,000, increasing by approximately RMB12,592,000 as compared with approximately RMB7,254,000 for the corresponding period in 2020; 4) the equity-settled share-based payment expenses were approximately RMB33,775,000, as the equity-based incentive contract was signed on 1 July 2020, while no such expenses were incurred in the first half of 2020; 5) the financial costs amounted to approximately RMB11,576,000, while such expenditures were approximately RMB3,807,000 in the first half of 2020. Such increase was primarily due to the interest accrued for the new bank loans after May 2020; and 6) the Group increased investment in research and development of new products and new technologies, and actively carried out school-company joint programs and other scientific research programs, and the research and development expenses increased by approximately RMB31,980,000 as compared with the corresponding period in 2020.

Non-Hong Kong Financial Reporting Standards ("HKFRS") Measures

The Group believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends of the Group, and that the management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual, non-recurring, non-cash and/or non-operating items that the Group does not consider indicative of the performance of the Group's core business. These non-HKFRS financial measures, as the management of the Group believes, is widely accepted and adopted in the industry in which the Group is operating in. However, the presentation of these non-HKFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRS. Shareholders of the Company and potential investors should not view the adjusted results on a stand-alone basis or as a substitute for results under HKFRS. And these non-HKFRS financial measures may not be comparable to the similarly-titled measures represented by other companies.

EBITDA and Adjusted EBITDA

As of the six months ended 30 June 2021, EBITDA amounted to approximately RMB225,853,000, representing a decrease of approximately RMB55,496,000 as compared with that of approximately RMB281,349,000 as of the six months ended 30 June 2020, excluding listing expenses, share-based payments and the impact of social insurance reduction and exemption in 2020. Adjusted EBITDA amounted to approximately RMB279,474,000 as of the six months ended 30 June 2021, representing an increase of approximately RMB17,321,000, or a growth rate of approximately 6.6%, as compared with that of approximately RMB262,153,000 as of the six months ended 30 June 2020.

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**143,531**	210,548
Add: Income tax expense	**24,743**	32,131
Interest expense	**11,576**	3,807
Depreciation	**38,881**	33,119
Amortisation	**7,122**	1,744
EBITDA for the period	**225,853**	281,349
Add: Share-based payment	**33,775**	–
Listing expense	**19,846**	7,254
Less: Social insurance reduction and exemption	**–**	26,450
Adjusted EBITDA for the period	**279,474**	262,153

Capital Expenditures

During the Interim Period, the capital expenditures of the Group amounted to approximately RMB185,176,000, including approximately RMB136,714,000 for plant and buildings and approximately RMB34,272,000 for machinery and equipment.

Contract Assets

The contract assets of the Group increased by approximately 41.0% from approximately RMB246,061,000 as at 31 December 2020 to approximately RMB346,958,000 as at 30 June 2021, which is in line with the revenue growth of the Group.

Trade and Other Receivables

The trade and other receivables of the Group increased by approximately 91.7% from approximately RMB578,858,000 as at 31 December 2020 to approximately RMB1,109,559,000 as at 30 June 2021, mainly because 1) the trade receivables increased by approximately RMB182,469,000 due to revenue growth; 2) some customers paid for orders with large amount by bank acceptance bills, resulting in an increase of approximately RMB272,836,000 in the balance of bills receivable; and 3) the purchase of raw materials for more orders on hand resulted in an increase of approximately RMB76,029,000 in the balance of prepayment.

Trade and Other Payables

The trade and other payables of the Group increased by approximately 40.0% from approximately RMB724,551,000 as at 31 December 2020 to approximately RMB1,014,595,000 as at 30 June 2021, mainly due to the purchase of raw materials for the significantly increased orders on hand, resulting in a significant increase in trade payables at the end of the period.

Contract Liabilities

The contract liabilities of the Group increased by approximately 34.8% from approximately RMB842,649,000 as at 31 December 2020 to approximately RMB1,136,135,000 as at 30 June 2021, which is in line with the business growth of the Group.

Liquidity and Capital Resources

The Company's shares were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 June 2021. The balance of cash and cash equivalents of the Group were approximately RMB898,837,000 as at 30 June 2021, while the balance was RMB424,428,000 as at 31 December 2020. Such increase was mainly due to the receipt of the raised funds of approximately RMB493,980,000.

The liquidity of the Group mainly includes cash and cash equivalents, cash generated from operating activities, proceeds from the share offer and borrowings. The liquidity demand mainly includes business working capital and capital expenditures.

The Group maintains the flexibility of capital by using bank credit facilities and interest-bearing borrowings, and regularly monitors the current and expected liquidity requirements to ensure that sufficient financial resources were maintained to meet the liquidity requirements.

The cash and cash equivalents held by the Group are mainly in currencies of RMB, USD, EUR and HKD. In order to mitigate the impact of foreign exchange rate fluctuations, the Group principally uses foreign exchange forward contract to reduce the foreign exchange risks in the ordinary course of business.

Borrowings

The aggregated borrowings of the Group increased by approximately 30.5% from approximately RMB443,532,000 as at 31 December 2020 to approximately RMB578,857,000 as at 30 June 2021, mainly due to an increase in bank borrowings to pay part of the amount required for engineering construction.

All borrowings were fixed-rate borrowings as at 30 June 2021. Among which, RMB denominated borrowings amounted to approximately RMB525,652,000, HKD denominated borrowings amounted to approximately RMB49,698,000, and JPY denominated borrowings amounted to approximately RMB3,507,000.

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings divided by total equity. Gearing ratio decreased from approximately 44.4% as at 31 December 2020 to approximately 34.7% as at 30 June 2021, mainly due to the increase in equity as a result of the listing of the Company's shares on the Stock Exchange on 28 June 2021.

Significant Investments, Acquisitions and Disposals

For the six months ended 30 June 2021, there was no significant investment, acquisition or disposal held by the Group.

CORPORATE GOVERNANCE CODE

Throughout the Interim Period, the Company has adopted and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors after the successful listing. It is believed that they have complied with the Model Code at all times during the Interim Period.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") currently consists of one non-executive director, Mr. Matsuhisa Terumoto, and two independent non-executive directors, Ms. Chan Yuen Sau Kelly and Mr. Kanno Shinichiro. The unaudited consolidated financial results and interim report of the Group during the Interim Period have been reviewed by the Audit Committee.

Dividends

The Board did not recommend the declaration of interim dividend for the six months ended 30 June 2021.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries conducted any purchase, sale or redemption of any listed securities of the Company during the Interim Period.

By Order of the Board
Morimatsu International Holdings Company Limited
Nishimatsu Koei
Chief Executive Officer and Executive Director

Hong Kong, 20 August 2021

As at the date of this announcement, the executive Directors are Mr. Nishimatsu Koei, Mr. Hirazawa Jungo, Mr. Tang Weihua, Mr. Sheng Ye and Mr. Kawashima Hirotaka; the non-executive Director is Mr. Matsuhisa Terumoto; and the independent non-executive Directors are Ms. Chan Yuen Sau Kelly, Mr. Kanno Shinichiro and Mr. Yu Jianguo.

This announcement is available for viewing on the Company's website at www.morimatsu-online.com and the Stock Exchange's website at www.hkexnews.hk.