MORIMATSU
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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2021	2020
	RMB	*RMB*
Revenue	**4,278,847,000**	2,978,626,000
Gross profit	**1,176,371,000**	844,104,000
Gross profit margin	**27.5%**	28.3%
Net profit	**380,552,000**	289,385,000
Net profit margin	**8.9%**	9.7%
New orders amounts	**6,654,149,000**	3,526,020,000
Adjusted EBITDA*(Note)*	**652,147,000**	451,026,000
Basic earnings per Share	**0.43**	0.39
Diluted earnings per Share	**0.38**	0.39

	As at 31 December	
	2021	2020
	RMB	*RMB*
The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	**5,720,026,000**	3,316,811,000

Note: Adjusted EBITDA represents profit from operations, adjusted to 1) exclude non-cash share-based compensation expenses, gains from a joint venture, listing expenses, depreciation and amortisation, but 2) include social insurance reduction and exemption.

The board (the "**Board**") of directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2021 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
	Note	**2021**	2020
		RMB'000	*RMB'000*
Revenue	*2*	**4,278,847**	2,978,626
Cost of sales		**(3,102,476)**	(2,134,522)
Gross profit		**1,176,371**	844,104
Other income/(loss)	*3*	**4,832**	(16,797)
Selling and marketing expenses		**(106,507)**	(73,110)
General and administrative expenses		**(374,620)**	(277,153)
Research and development expenses		**(226,628)**	(125,779)
Impairment loss on trade receivables and contract assets		**(2,803)**	2,621
Profit from operations		**470,645**	353,886
Finance costs	*4(a)*	**(22,789)**	(12,456)
Shares of results of joint venture		**(32)**	—
Profit before taxation	*4*	**447,824**	341,430
Income tax	*5(a)*	**(67,272)**	(52,045)
Profit for the year		**380,552**	289,385
Attributable to:			
Equity shareholders of the Company		**380,552**	289,385
Profit for the year		**380,552**	289,385
Earnings per share	*6*		
Basic (RMB)		**0.43**	0.39
Diluted (RMB)		**0.38**	0.39

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Profit for the year		**380,552**	289,385
Other comprehensive income for the year			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of the Company		**(5,625)**	2,518
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland China		**(4,094)**	1,167
Other comprehensive income for the year		**(9,719)**	3,685
Total comprehensive income for the year		**370,833**	293,070
Attributable to:			
Equity shareholders of the Company		**370,833**	293,070
Total comprehensive income for the year		**370,833**	293,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Note	**2021**	2020
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**1,226,951**	838,527
Right-of-use assets		**106,225**	107,851
Intangible assets		**33,702**	29,901
Interest in joint venture		**10,878**	—
Deferred tax assets		**—**	745
Other non-current assets		**15,967**	4,005
		1,393,723	981,029
Current assets			
Inventories		**1,229,633**	804,069
Contract assets	*9(a)*	**609,515**	246,061
Trade and other receivables	*7*	**916,679**	578,858
Financial assets measured at fair value through profit or loss ("**FVPL**")		**695**	—
Cash and cash equivalents		**1,545,079**	424,428
		4,301,601	2,053,416
Current liabilities			
Trade and other payables	*8*	**1,085,560**	724,551
Contract liabilities	*9(b)*	**2,171,901**	842,649
Interest-bearing borrowings		**370,002**	443,532
Lease liabilities		**2,338**	882
Current taxation		**33,854**	6,201
Provisions		**17,362**	13,913
		3,681,017	2,031,728
Net current assets		**620,584**	21,688
Total assets less current liabilities		**2,014,307**	1,002,717

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Non-current liabilities			
Lease liabilities		**1,536**	1,734
Deferred tax liabilities		**4,126**	2,272
Deferred income		**353**	399
		6,015	4,405
Net assets		**2,008,292**	998,312
Capital and reserves			
Share capital		**571,769**	173
Reserves		**1,436,523**	998,139
Total equity attributable to equity shareholders of the Company		**2,008,292**	998,312
Total equity		**2,008,292**	998,312

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in a joint venture.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "**Functional Currency**"). The financial statements is presented in Renminbi ("**RMB**"), rounded to the nearest thousand except for earnings per share information.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for forward foreign exchange contract which is measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The financial information relating to the years ended 31 December 2021 and 2020 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance 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 and will deliver the financial statements for the year ended 31 December 2021 in due course.

The Company's auditor has reported on the financial statements of the Group for the year ended 31 December 2021. The auditor's reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2

- Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The adoption of these accounting policies did not have significant impact on the financial statements.

2 REVENUE

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

(a) *Disaggregation of revenue*

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— traditional pressure equipment	**2,221,045**	1,578,628
— reactor	**1,036,177**	687,554
— heat exchanger	**400,142**	395,644
— tank	**516,792**	395,608
— tower	**267,934**	99,822
— modular pressure equipment	**1,925,440**	1,325,028
— others*	**27,913**	21,132
Sales of products	**4,174,398**	2,924,788
— Pressure equipment design, validation, and maintenance service	**104,449**	53,838
Service	**104,449**	53,838
Revenue of operations	**4,278,847**	2,978,626

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

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 2(c).

The Group's customer base is diversified and includes one customer only with whom transactions have exceeded 10% of the Group's revenue of the year ended 31 December 2021 (2020: nil). Revenue from this customer during year ended 31 December 2021 are set out below:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Customer A	**535,712**	*

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

(b) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2021 and 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB5,720,026,000 and RMB3,316,811,000, respectively. This amount represents revenue expected to be recognised in the future from contracts with customers in existence at the reporting date. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 to 36 months.

The above amount also does not include any amounts of completion bonuses that the Group may earn in the future by meeting the conditions set out in the Group's contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

(c) 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.

	Revenue from external customers Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Mainland China	**3,541,208**	1,607,480
North America	**117,109**	124,119
Asia (excluding mainland China)	**338,453**	792,342
Europe	**215,157**	291,242
Others *(Note)*	**66,920**	163,443
	4,278,847	2,978,626

Note: Others mainly include countries in South America, Africa, and Oceania.

3 OTHER INCOME/(LOSS)

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Government grants *(i)*	**6,685**	10,187
Interest income	**2,123**	1,666
Net realised gains on financial assets measured at fair value through profit or loss	**3,299**	3,133
Net foreign exchange losses	**(16,069)**	(33,254)
Changes in fair value of financial assets and liabilities	**695**	(57)
Net loss on disposal of property, plant and equipment	**(610)**	(620)
Others	**8,709**	2,148
	4,832	(16,797)

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

4 PROFIT BEFORE TAXATION

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on interest-bearing borrowings	**22,683**	12,396
Interest on lease liabilities	**106**	60
	22,789	12,456
(b) Staff costs:		
Salaries, wages and other benefits	**652,029**	506,179
Equity-settled share-based payment expenses	**67,551**	36,835
Contributions to defined contribution retirement plans *(i)*	**66,283**	28,792
	785,863	571,806

(i) Employees of the Group's subsidiaries in the People's Republic of China (the "**PRC**") are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute 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.

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
(c) Other items:		
Amortisation of intangible assets	**13,669**	6,125
Depreciation charge		
— owned property, plant and equipment	**74,360**	65,813
— right-of-use assets	**4,900**	4,731
Auditor's remuneration		
— audit services	**3,480**	3,920
— tax services	**390**	360
— other services	**283**	—
Research and development costs *(i)*	**226,628**	125,779
Increase in provisions	**8,107**	6,651
Cost of inventories *(ii)*	**3,102,476**	2,134,522
Expense relating to short-term leases	**51,254**	37,108

(i) Research and development costs included staff costs of RMB119,763,000 and RMB84,921,000, depreciation and amortisation expenses of RMB7,729,000 and RMB4,964,000 for the years ended 31 December 2021 and 2020, which are also included in the respective total amounts disclosed separately above or in Note 4(b).

(ii) Cost of inventories included staff costs of RMB461,514,000 and RMB368,876,000, depreciation and amortisation expenses of RMB57,291,000 and RMB52,375,000 for the years ended 31 December 2021 and 2020, which are also included in the respective total amounts disclosed separately above or in Note 4(b).

5 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current tax:		
Provision for the year	**64,673**	46,681
Deferred tax:		
Origination and reversal of temporary differences	**2,599**	5,364
Actual tax expense	**67,272**	52,045

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

		Year ended 31 December	
	Note	**2021**	2020
		RMB'000	*RMB'000*
Profit before taxation		**447,824**	341,430
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	*(i)(ii)*	**83,476**	61,645
Additional deduction for qualified research and development expenses	*(iii)*	**(20,905)**	(10,392)
Under-provision in respect of prior year		**338**	97
Non-deductible expenses		**7,162**	1,619
Tax effect of unrecognised loss	*(v)*	**(3,206)**	1,063
Tax effect of unrecognised temporary difference		**407**	(1,987)
Actual tax expense		**67,272**	52,045

(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 subject to the Hong Kong Profits Tax at a rate of 16.5% during the Reporting Period. 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 during 2021 and 2020.

Pursuant to the income tax rules and regulations of Sweden, Pharmadule Morimatsu AB was subject to the Sweden Corporate Tax at a rate of 20.6% and 21.4% in 2021 and 2020.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc was subject to the United States Corporate Tax at a rate of 21% in 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 subject to the Indian Corporate Tax at a rate of 25% during 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 during the Reporting Period.

Pursuant to the income tax rules and regulations of Japan, Morimatsu Technology And Service Company Limited was subject to the Japan Corporate Tax at a rate of 33.58% and 33.28% in 2021 and 2020.

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. (established on 26 November 2020) was subject to the Italy Corporate Tax at a rate of 24% in 2021. No provision for Italian Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italian Corporate Tax during the Reporting Period.

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

	Applicable preferential tax rate	**Period**
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("**Morimatsu Heavy Industry**") (森松（江蘇）重工有限公司)	15%	2021 and 2020
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%	2021 and 2020

(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 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.

6 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 Company (the "**Shareholders**") of RMB380,552,000 (2020: RMB289,385,000) and the weighted average of 895,034,000 ordinary shares of the Company ("**Shares**") (2020: 750,000,000 Shares after adjusting for the bonus issue in 2021) in issue during the year, calculated as follows:

Weighted average number of ordinary Shares

	2021	2020
Issued ordinary Shares at 1 January	**200,000**	100,000
Effect of bonus issue *(note (i) below)*	**749,800,000**	749,800,000
Effect of Shares issued *(note (ii) below)*	**—**	100,000
Effect of Shares issued	**145,034,000**	—
Weighted average number of ordinary Shares at 31 December	**895,034,000**	750,000,000

note (i): The number of ordinary Shares outstanding before the bonus issue completed on 31 May 2021 was adjusted for the proportionate increase in the number of ordinary Shares outstanding without a corresponding change in resources, as if the bonus issue had occurred at the beginning of the earliest period presented.

note (ii): The number of ordinary Shares outstanding before the share issued for reorganisation completed on 11 November 2020 was adjusted for the proportionate increase in the number of ordinary Shares outstanding without a corresponding change in resources, as if the Shares issued at the beginning of the earliest period presented.

(b) Diluted earnings per Share

The calculation of diluted earnings per Share is based on the profit attributable to ordinary equity Shareholders of the Company of RMB380,552,000 (2020: RMB289,385,000) and the weighted average number of ordinary Shares of 1,004,396,000 Shares (2020: 750,000,000 Shares after adjusting for the bonus issue in 2021), calculated as follows:

Weighted average number of ordinary Shares (diluted)

	2021	2020
Weighted average number of ordinary Shares at 31 December	**895,034,000**	750,000,000
Effect of deemed issue of Shares under the Company's share option scheme	**109,362,000**	—
Weighted average number of ordinary Shares (diluted) at 31 December	**1,004,396,000**	750,000,000

7 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Bills receivable *(Note (a)(i))*	**83,398**	19,662
Trade debtors net of loss allowance	**604,819**	455,523
Other debtors	**23,285**	21,069
Prepaid income tax	**—**	491
Financial assets measured at amortised cost	**711,502**	496,745
Prepayments	**205,177**	82,113
	916,679	578,858

(a) Transfers of financial assets

The Group endorsed bank acceptance bills to its suppliers for settling trade payables of the same amounts on a full recourse basis. All bank acceptance bills had a maturity of less than one year from the issuance date. As at 31 December 2021, the Group had bill receivable of RMB5,205,000 (as at 31 December 2020: nil) pledged to China Zheshang Bank as security for bills payable.

(i) Transferred financial assets that were derecognised in their entirety

The bills accepted by banks with high credit quality were derecognised when they were endorsed. In the opinion of the directors, the Group did not retain substantially all the risks and rewards of ownership of these bills, because the credit risk of the acceptance banks was very low and the Group had transferred out all interest risk of the bills upon endorsement. As the transferees had the practical ability to further endorse or discount the bills, control of these bills were transferred upon endorsement and thus they were derecognised. As at 31 December 2021 and 2020, bills endorsed and derecognised, but yet reached maturity amounted to RMB232,865,000 and RMB63,700,000 respectively. This represents the Group's maximum exposure to loss should the acceptance banks fail to settle the bills on maturity date. However, non-settlement by those acceptance banks was considered unlikely.

(ii) Transferred financial assets that are not derecognised in their entirety

The other bank acceptance bills with a total carrying amount of RMB47,797,000 and RMB19,662,000 endorsed by the Group to its suppliers during the years ended 31 December 2021 and 2020 respectively to settle trade payables of the same amounts, were not derecognised. In the opinion of the directors, the Group retained substantially all risks and rewards of these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated liabilities.

(b) Ageing analysis

As at the end of each 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 31 December	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**401,492**	216,703
More than 3 months but less than 1 year	**143,589**	141,118
More than 1 year but less than 2 years	**57,482**	91,900
More than 2 years	**2,256**	5,802
	604,819	455,523

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

8 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Bills payable	**46,319**	—
Trade payables	**718,399**	433,176
Other payables and accruals	**320,842**	291,375
Financial liabilities measured at amortised cost	**1,085,560**	724,551

As at the end of each 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 31 December	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**561,565**	327,383
More than 3 months but less than 6 months	**99,990**	69,795
More than 6 months but less than 12 months	**40,214**	21,925
More than 1 year but less than 2 years	**12,611**	10,112
More than 2 years	**4,019**	3,961
	718,399	433,176

Bills payable of RMB11,655,000 (2020: nil) was guaranteed by pledging bills receivable and deposit with banks.

All trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

9 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

Contract assets	As at 31 December 2021 *RMB'000*	2020 *RMB'000*
Arising from revenue recognised over time	**609,515**	246,061
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (Note 7)	**604,819**	455,523

Contract assets primarily relate to the Group's rights to consideration for work completed but not yet reached the milestones for billing at the reporting date. The Group's contracts include payment schedules which require stage payments over the delivery period once milestones are reached. Contract assets are transferred to trade receivables when the rights become unconditional.

(b) Contract liabilities

Contract liabilities	As at 31 December 2021 *RMB'000*	2020 *RMB'000*
Billings in advance of performance	**2,171,901**	842,649

Contract liabilities primarily relate to the consideration received from customers in advance, for which revenue is recognised based on the progress of the provision of related services.

	Contract liabilities
	RMB'000
Movement in contract liabilities	
At 1 January 2020	1,264,079
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,165,437)
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	744,007
At 31 December 2020 and 1 January 2021	842,649
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(680,893)
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	2,010,145
At 31 December 2021	2,171,901

10 DIVIDENDS

Dividends for the Reporting Period represent dividends declared and approved to equity Shareholders of the Company during the years ended 31 December 2021 and 2020.

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Dividends declared and approved during the year	—	30,000

The Directors consider that the dividends declared and approved during the Reporting Period are not indicative of the future dividend policy of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE AND GROWTH OF OUR PRINCIPAL SECTORS

The Group is principally engaged in the design, manufacture, installation, operation and maintenance business, which is mainly applied to the core process equipment, process systems and comprehensive solutions including chemical reactions, biological reactions and polymerization reactions. The downstream industries/sectors served by the Group currently include oil and gas, daily chemicals, new chemical materials, pharmaceutical (including biopharmaceutical and synthetic chemical drugs), raw materials of power battery (including metallic ores and lithium battery raw materials) and electronic chemicals (including the production of photovoltaic raw materials and high-purity chemical reagents), etc.

The Group currently has two modern manufacturing bases in Nantong and Shanghai, China, and a coastal manufacturing base in Malaysia. During the Reporting Period, the Group established Morimatsu (Suzhou) LifeScience Co., Ltd. (森松(蘇州)生命科技有限公司) ("**Morimatsu (Suzhou) LifeScience**"), which is located in Suzhou Pharmaceutical Valley, adjacent to the Group's production base in Nantong. It is mainly engaged in the manufacturing of high-end intelligent equipment and complete sets of professional precision equipment in the fields of biopharmaceuticals, daily chemicals and electronic chemicals. Such manufacturing base will commence construction in 2022 and is planned to officially enter into production in the second half of 2023, and will become another growth engine for the Group.

During the Reporting Period, the Group's main drivers for business growth were from the industries/sectors of (1) pharmaceutical and biopharmaceutical; (2) raw materials of power battery; (3) new chemical materials; and (4) electronic chemicals. The two most active industries were raw materials of power battery and pharmaceuticals and biopharmaceuticals.

Set out below is the amount of new orders of the major downstream industries for the year ended 31 December 2021 and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts as at 31 December 2021. The rapid growth of the Group's business is mainly attributable to the industries of pharmaceutical and biopharmaceutical and the raw materials of power battery. The contribution from the business of these two industries accounted for over 50% of the total amount of new orders received by the Group and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts.

Downstream Industry	The amount of new orders	Proportion	The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	Proportion
	RMB'000		*RMB'000*	
Electronic chemicals	760,027	11.4%	391,469	6.8%
Chemicals	1,422,449	21.4%	1,844,748	32.3%
Daily chemicals	148,573	2.2%	84,979	1.5%
Raw materials of power battery*	1,406,727	21.1%	1,167,816	20.4%
Oil and gas	332,697	5.0%	243,928	4.3%
Pharmaceutical and biopharmaceutical	2,401,812	36.1%	1,748,949	30.6%
Others	181,864	2.8%	238,137	4.1%
Total	6,654,149	100.0%	5,720,026	100.0%

* *Raw materials of power battery include mining and metallurgy industry.*

CONCERTED EFFORT TO COMBAT THE CORONAVIRUS DISEASE 2019 ("COVID-19") PANDEMIC

During the Reporting Period, under the leadership of the Board, the Group have overcome the prolonged impact in such aspects as supply chain, human resources coordination, domestic and overseas logistics, and project site support caused by the volatile COVID-19 pandemic situation with high morale and perseverance, so as to safeguard the interests of customers, suppliers, other stakeholders, as well as the Group and its employees to the greatest extent.

During the year of 2021, the Group successfully delivered the first set of Messenger Ribonucleic Acid ("**mRNA**") vaccine production facilities in China which adopted the world's advanced nucleic acid drug platform production technology, with a designed annual production capacity of 200,000,000 doses. In just seven and a half months, the Group centralised its advantageous resources to complete the design, construction, assembly and on-site commissioning of a modern biopharmaceutical plant. The successful delivery of the project not only marks the breakthrough of China's COVID-19 vaccine technology, but also demonstrates the determination and perseverance of the Group and its employees to overcome difficulties and take on corporate social responsibility.

The Group also spared no effort to assist customers of domestic and overseas biopharmaceutical companies to provide high-quality engineering project solutions in different fields such as antibodies, nucleic acid drugs and vaccines, rapidly promoting the launch of advanced biopharmaceutical products all over the world, helping people in different countries and regions overcome the COVID-19 pandemic as soon as possible, and helping people's livelihood and economic development to get back on the right track as soon as possible.

MACRO POLICIES AND MARKET ANALYSIS OF KEY DOWNSTREAM INDUSTRIES/SECTORS

In 2021, the Central Economic Conference of China put forward the key tasks of "strengthening the support of macro policies", "stimulating the vitality of market players", "enhancing the core competitiveness of the manufacturing industry" and "opening up to the outside world at a high level", which clearly required the promotion of the development of the manufacturing industry.

During the Reporting Period, the Group kept a close eye on the development trend of the global market and the macro policies of the regions where it operates, adjusted its industrial strategies in a timely manner, and formulated market strategies, product strategies, talent strategies and capacity development plans with the goal of pursuing circular growth and sustainable development. In the process of pursuing continuous improvement in profitability, the Group determined the target market, development pace and resource layout in the medium and long term in the future based on the macro policies and market condition.

Clean energy and raw materials of power battery

On 24 October 2021, the central government of the PRC issued the "Opinions of the Central Committee of the Communist Party of China and the State Council on the Full Implementation of the New Development Concept of Carbon Peak and Carbon Neutrality《中共中央國務院關於完整準確全面貫徹新發展理念做好碳達峰碳中和工作的意見》". The opinions first responded to the solemn commitment of President Xi Jinping at the 75th United Nations General Assembly on 22 September 2020, which expressed China's resolution to reach the peak of carbon dioxide emissions by 2030 and achieve the goal of carbon neutrality by 2060, of which the proportion of non-fossil energy consumption accounts for more than 80%.

In November 2021, the National Development and Reform Commission of the State Council proposed the "National Clean Production Implementation Plan of the 14th Five-Year Plan《「十四五」全國清潔生產推行方案》", which requires the application of new energy and clean energy in the transportation sector. In January 2022, the Ministry of Transport proposed the "Green Transportation Development Plan of the 14th Five-Year Plan《綠色交通「十四五」發展規劃》", which requires the further reduction of the energy consumption and carbon emission intensity of operating vehicles and ships, and the significant increase in the proportion of new energy and clean energy applications.

According to the data released by China Automotive Power Battery Industry Innovation Alliance, in 2021, the cumulative production volume of power batteries in China was 219.7 gigawatt hour ("**GWh**"), representing a year-on-year increase of approximately 163.4%; the sales volume was 186.0 GWh, representing a year-on-year increase of approximately 182.3%; the installed capacity was 154.5 GWh, representing a year-on-year increase of approximately 142.8%. At the same time, according to Huaan Securities Co., Ltd. (華安證券股份有限公司), the production and sales volume of new energy vehicles increased significantly, and the production capacity of battery manufacturers will also increase, which is expected to lead to a favourable rise in volume and price. It is expected that the global installed capacity of power battery will reach 450 GWh and the domestic installed capacity will reach 230 GWh in 2022. Citic Securities Company Limited (中信證券股份有限公司) anticipated that the global demand for power batteries for new energy vehicle will reach 1380 GWh in 2025, with a large demand space and high pace of growth.

According to the statistical data of mandatory liability insurance for traffic accidents of new energy vehicle released by Gaogong Industry Institute. Co. Ltd. (高工產業研究院) (GGII), in 2021, the sales of new energy vehicles in China was approximately 3,029,000 units, representing a year-on-year increase of approximately 143%; the installed capacity of power battery was approximately 139.98 GWh, representing a year-on-year increase of approximately 128%. Among them, the long-term demand for raw materials of power battery caused by the rapid development of new energy vehicles has also been witnessed in the upstream markets since 2021, including nickel, cobalt, manganese and other positive electrode materials, graphite and other negative electrode materials, lithium carbonate, lithium hydroxide, polyvinylidene difluoride ("**PVDF**"), lithium hexafluorophosphate, lithium difluorophosphate, electrolyte, etc..

In 2021, the price of lithium battery raw materials for new energy vehicles increased rapidly. According to the report of China Automotive News on 5 November 2021, the trading quotation system of lithium battery industry chain showed that the quoted price of lithium carbonate on 19 October 2021 reached RMB200,000 per ton, representing an increase of 233% as compared to the beginning of the year; the quoted price of lithium hexafluorophosphate was RMB520,000 per ton, representing an increase of nearly 400%; the price of PVDF increased by more than 100% from the beginning of the year. Meanwhile, the price of positive electrode materials for lithium ferrous phosphate increased from RMB35,000 per ton at the beginning of the year to RMB65,000 per ton as of now; the price of ternary 523 monocrystalline materials increased to RMB200,000 per ton from RMB110,000 per ton at the beginning of the year; the price of electrolyte increased to RMB110,000 per ton currently from RMB35,000 per ton at the beginning of the year. The foreseeable continuous increase in raw material prices will drive a new round of upstream capacity expansion. The rapid market penetration of new energy vehicles will promote a long-term and sustainable upstream and downstream investment boom in raw materials of power battery.

Biopharmaceutical

The report of the 19th National Congress of the Communist Party of China pointed out that, in the new era of socialism with Chinese characteristics, the main contradiction in the Chinese society has been transformed into the contradiction between the people's growing needs for a better life and the unbalanced and inadequate development. One of the key elements to improve average life expectancy and promote healthy living is the high-quality and rapid development of the biopharmaceutical industry.

On 11 March 2021, the "14th Five-Year Plan (2021–2025) for National Economic and Social Development of the People's Republic of China and the Outline of Long-Range Objectives Through the Year 2035 《中華人民共和國國民經濟和社會發展第十四個五年（2021–2025年）規劃和2035年遠景目標綱要》" (the "**14th Five-Year Plan**") was approved at the 4th meeting of the 13th National People's Congress, in which the key words related to biopharmaceuticals, such as biomedicine, gene technology, life health, pharmaceuticals and medical devices, were included in the key words of the new pillar of the industrial system, future industries, frontier fields and key core technologies, respectively. In innovation-driven and key development areas, biopharmaceutical was listed as a major innovation area and a key development direction, respectively. All regions in China, including the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, have launched the 14th Five-Year Action Plan for biopharmaceutical, of which the scale target for industrial construction (2025) in Shanghai alone is RMB1,000 billion.

The Frost & Sullivan Institute estimates that the global biopharmaceuticals market will reach approximately United States dollars ("**USD**") 768 billion in 2030; and the biopharmaceuticals market in China will reach approximately RMB1,303 billion in 2030. In 2019, the global biopharmaceuticals and Chinese biopharmaceuticals accounted for approximately 22% and 19% of each of their drug markets, respectively, and the proportion will increase to approximately 37% and 41%, respectively, by 2030. From the research report of China Securities Co., Ltd. (China Securities), the current market size of the biopharmaceutical market in China accounts for approximately 18% of the global market size. The expected growth rate of biopharmaceutical equipment and consumables is approximately 17% and 20% from 2020 to 2025, respectively. From 2022 to 2025, the total order amount of equipment corresponding to the additional production capacity in the domestic biopharmaceutical market in China is expected to reach approximately RMB84.3 billion, and the biopharmaceutical supply chain will continue to boom.

Digital factory

Based on the relevant data of the entire product life cycle, the digitalised factory conducts digital definition, process simulation, process evaluation and optimisation of the entire production process in the computer environment, and further expands to the new production organisation mode of the entire product life cycle. According to the definition of the German Institute of Engineers, a digitalised factory is an integrated network consisting of digital models, methods and tools, including simulation and 3-Dimensional ("**3D**")/Virtual Reality ("**VR**") visualisation, which is integrated together through continuous uninterrupted data management.

The core elements of the construction of a digitalised factory can be summarised into factory equipment digitalisation, factory logistics digitalisation, design and research and development ("**R&D**") digitalisation, and production process digitalisation. Through the construction of these four aspects, it drives the innovation of product design methods and tools, and the innovation of enterprise management models. The technology of digitalised factory based on the internet, digital platforms, and cloud big data storage and exchange is believed to be one of the important display forms of Industry 4.0 that refers to using CYBER-physical System ("**CPS**") to digitize and intellectualize the supply, manufacturing and sales information in production, and finally achieve fast, effective and personalized product supply.

The competitive advantages of manufacturing enterprises, especially non-traditional manufacturing enterprises, are to build a service platform based on digitalisation and big data, create competitive advantages on the basis of empowering downstream enterprises and helping customers optimise processes and costs, and meet the in-depth value needs of downstream enterprises to jointly improve profitability and diversity of future development.

During the Reporting Period, the Group also successfully realised the sales of factory operation and maintenance software, and expects to further promote this high value-added and high-tech business through in-depth cooperation with downstream industries and enterprises.

New chemical materials

According to the "14th Five-Year Planning Guide for the New Chemical Materials Industry《化工新材料行業「十四五」規劃指南》", the production scale and growth rate of new chemical materials in China ranked first in the world, but the self-sufficiency rate was insufficient in some sub-sectors. New chemical materials are an important foundation for the development of strategic emerging industries. During the period of the 14th Five-Year Plan, we need to achieve breakthrough in the new materials in key application fields, deploy a batch of cutting-edge new materials, accelerate the initial market cultivation of key new materials, and improve the basic guarantee level of new chemical materials in the industrial field.

New chemical materials are the foundation for the development of strategic emerging industries, and also an important direction for the transformation, upgrade and development of traditional petrochemical and chemical industries. These include high-performance resins, such as high-end polyolefin, engineering plastics, polyurethane, degradable materials and their raw materials, special synthetic rubber and high-performance fibers. Functional film materials include lithium battery separator and photovoltaic film (such as ethylene-vinyl acetate ("**EVA**") encapsulant film, polyvinyl fluoride ("**PVF**")/PVDF backplane protective film, etc.) which are widely used in the new energy industry. Specialty chemicals include high-purity reagents, specialty gases and solvents.

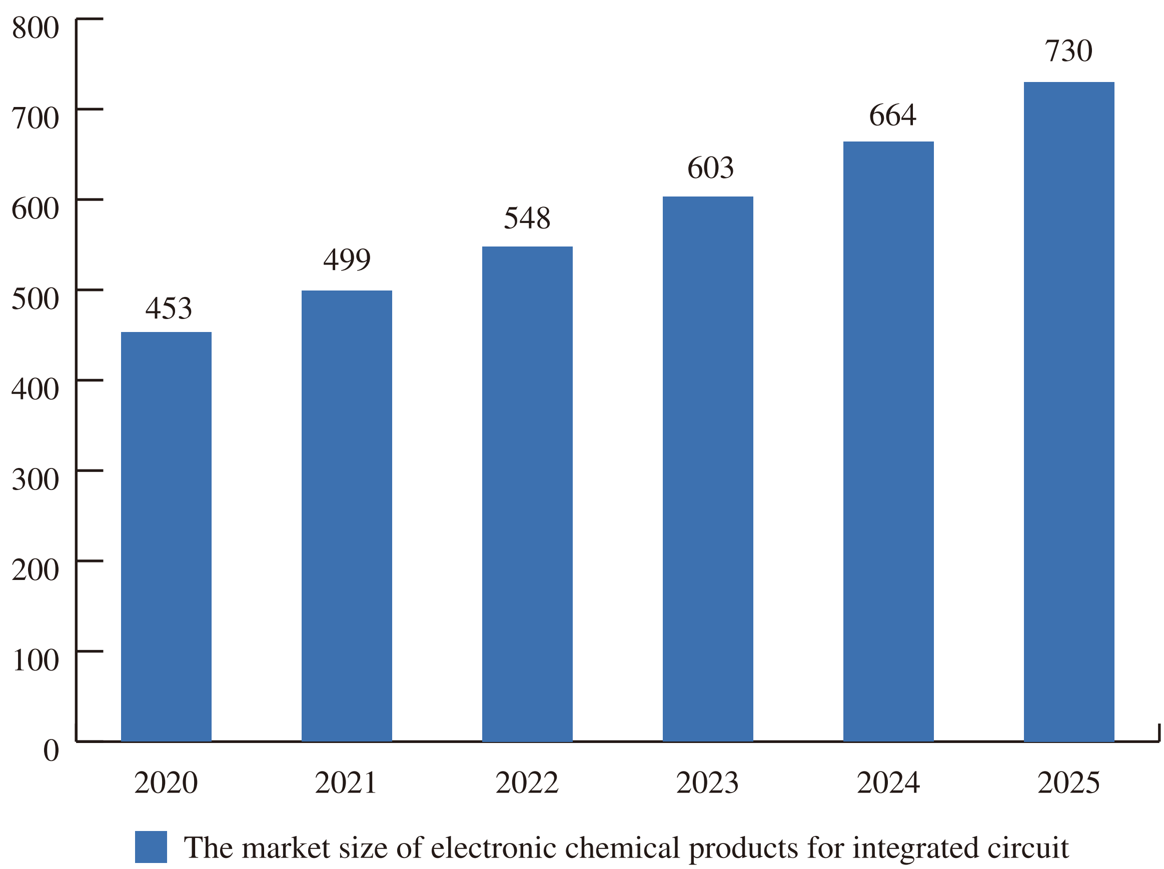
Electronic chemicals

One of the core processes in the semiconductor manufacturing process is the graphical process, which involves the transfer of the designed image from a mask plate to a suitable position on the surface of the wafer, generally including two major procedures, namely lithography and etching. The wafer surface is first cleaned before lithography by mainly using related electronic-grade reagents, including acetone, methanol, isopropanol, ammonia, hydrogen peroxide, hydrofluoric acid, hydrogen chloride, etc. After cleaning, the wafer is then coated with a layer of photoresist on the surface by spin-coating method and dried before being transferred to the lithography machine. The production process of electronic-grade reagents shall include special processes such as pre-treatment, filtration and purification in order to obtain high purity products (such as part per trillion ("**PPT**") grade). Among them, hydrogen peroxide, hydrofluoric acid and sulphuric acid are the most consumed products.

Wet electronic chemicals are the key supporting products throughout the whole chip manufacturing process. They can be divided into ultra-clean high-purity reagents and functional wet chemicals, which mainly cover the cleaning, etching and imaging processes in wafer manufacturing. Whether their purity and the size of impurity particles meet the standards has a great impact on the quality of precision chip manufacturing. China Securities believes that, at present, the localisation rate of high-end wet electronic chemicals is relatively low. Fields such as photo-initiators and developers are solely dependent on imports in general, and the demand for domestic substitution is increasing.

The semiconductor industry is rapidly shifting from concentrating in a few countries and regions to more countries, especially in China and other traditional markets. The development of the semiconductor material market is also growing rapidly. In the future, driven by the domestic substitution of electronic chemical products and the promotion of intelligent manufacturing and industrial informatisation construction in China, the market size of electronic chemical products for integrated circuit in China will maintain a continuous growth trend. According to the estimate of the Forward Industry Research Institute, the market size of the integrated circuit chemical industry in China will reach approximately RMB73 billion by 2025, representing a Compound Annual Growth Rate ("**CAGR**") of approximately 10%.

The market size of electronic chemical products for integrated circuit in China in 2020-2025 (Unit: RMB100 million)



Source: collected by the Forward Industry Research Institute

In conclusion, technological innovation is the biggest driving force for the development of the industry. The continuous diversed development of the Group is attributable to the continuous technological innovation in different downstream industries/sectors. The macro policies favourable to the development of enterprises represent the expectations and requirements of the society for each industry. Therefore, people's pursuit of a better life reflects the long-term needs of the society for green energy, new chemical materials, advanced biological drugs and cutting-edge electronic products. The Group promotes its growth through technological innovation, while regarding meeting the needs of downstream industries as its development value and promoting a better life for mankind and building a green home as its corporate mission. The products and services of the Group will also be upgraded in tandem with the technological iteration of downstream industries in the long term, which will help customers realise their corporate value and fulfill their industry mission.

PRIORITY FOR INNOVATION AND DIGITAL INTELLIGENCE

During the Reporting Period, the Group proposed the expansion strategy to both ends of the smiling curve for the position of its products in the industry chain. In addition to the abovementioned specific products, the Group actively penetrates into downstream industries R&D by establishing joint laboratories with customers, forming joint R&D teams, participating in small-scale tests (development and optimisation of original technologies) and pilot tests (verification and utilisation of technologies), and cultivates sustainable market competitive advantages through product differentiation strategy.

Shifting to the two ends of the smile curve is a necessary step for manufacturing enterprises to become capable of creating high added value, sustaining continuous innovation and generating service profitability. Its front-end businesses include the early establishment of joint R&D teams and shared laboratories; while its back-end businesses include in-depth support for operation and maintenance, provision of management software, and even the realisation of digital twin factories. During the full life cycle of new technologies, we provide services from digital research, design, manufacturing, delivery to operation and maintenance, so as to support the continuous improvement of technologies and processes in downstream industries.

At the same time, through close cooperation with downstream customers and in-depth understanding of the production processes, the Group's one-stop solution also includes the operation and maintenance software of factories and complete sets of module products. Project solutions based on digital technology include software products that assist customers in managing factory operations, maintenance and subsequent technology upgrades. From laboratory to control room, the Group's products can provide one-stop engineering solutions with both software and hardware for downstream customers. Offering hardware products accompanied with our services, we are able to provide customers with more efficient solutions and professional operation and maintenance service support, realise the full life cycle coverage of advanced technologies and complex projects, and empower downstream industries to continuously improve their production efficiency and process routes through digital platforms.

Guided by the innovation-driven empowerment strategy, the Group continues to introduce industry-leading new technologies and new products. Through its subsidiaries in Sweden, Italy, India, Malaysia, Japan and the United States, it attracts professionals from all over the world to provide customers with high value-added services in terms of feasibility studies, technical and project consultation and front-end design.

CYCLICAL AND SUSTAINABLE DEVELOPMENT OF DOWNSTREAM INDUSTRIES/SECTORS

The continuous development of downstream industries is derived from the continuous innovation of technology, which is in turn derived from the pursuit of a better life by the human society. The products of the pharmaceutical industry enable people to live a healthier life, and the products of the new chemical materials sectors endow people with a better and more environmentally friendly living environment. As a result, the crave and pursuit of a better life and a better world have promoted the demand for various synthetic new materials, including biological materials and chemical materials, by the human society. The new technology contained therein gives rise to the continuous introduction of new equipment, new processes and new platforms.

The Group has tapped into the forefront fields in biopharmaceuticals, such as nucleic acid drugs (Ribonucleic Acid ("**RNA**")/DNA/oligonucleotide), bispecific antibodies, Antibody-Drug Conjugates ("**ADCs**"), cell therapy ("**CAR-T**") and other fields. The market size of these sectors is forecasted to be over 10 billion USD by different institutions. The Group is also continuously carrying out technical preparation and talent training for the new sectors, planning for the core equipment and process systems required in the development of in the new areas, and continuously improving its ability to provide integrated engineering solutions in the new areas. Before some existing fields enter the bottleneck period of development, the Group will focus on new fields and seise every opportunity in the development of new industries.

The rapid development of the raw materials of power battery market reflects the huge demand for new energy in the whole society. Moreover, the production means of non-renewable resources (metal ores such as nickel, cobalt and lithium) and chemicals (including products such as electrolyte, additives, binding agents and lithium salts) have become more demanding, relying more on efficient and environmentally friendly engineering solutions. The Group's industry performance, market reputation, technology accumulation and professional team will continue to empower downstream industries to continuously expand production and upgrade the industry chain.

The Group's business relies on cyclical investments in different downstream industries. However, as the cyclicality of different industries and customers varies, the Group is able to incorporate its existing production capacity and planned production capacity into the investment cycle of different industries, thereby making use of the cyclicality of downstream industries to effectively utilise existing production capacity and rationally plan for future production capacity, so as to avoid the risk of rash expansion in the short term to meet the growth and expansion needs of downstream markets.

The abundant applications of downstream markets, the continuous updating of material science and technology, the large existing customer base and their leading position in the industry can ensure the sustainable business growth, technological development and products and services iteration of the Group.

CONTINUOUS GROWTH AND FUTURE DEVELOPMENT

In addition to non-renewable natural resources, such as metal minerals and fossil energy, most of the materials that are closely related to modern civilisation are products from biological reactions, chemical reactions and polymerisation reactions, such as chemical fibres, artificial rubber, chemical synthesis drugs, skin care and hair care products, synthetic proteins and lithium batteries for new energy vehicles required for daily life. Since the 1800s, the rapid development of human civilisation, including the upgrading of technologies in agriculture, industry, food and medical care, is inseparable from the advancement of material technology.

The core technologies of the Group are derived from the understanding and application of biological reactions, chemical reactions and polymerisation reactions. In particular, technological changes and product innovation based on downstream sectors/industries (including pharmaceutical and biopharmaceutical, new chemical materials, raw materials of power battery, electronic chemicals, etc.) will become the driving force of the Group's technological development.

The Group's core technology is to transform original technologies of downstream industries (such as laboratory technology and small-scale production technology) into highly integrated and highly efficient engineering products and solutions with high economic benefits. Every technology upgrade from downstream industries will drive the upgrade of products and technologies of the Group. At the same time, the Group's talent pool, R&D and technical teams and diversified and rich industry experience can also help downstream enterprises to jointly realise the introduction of new technologies and new products. Digital technology full life cycle solutions will help enhance the technical attributes and upgrade potential of core equipment in different industries, and at the same time enable the Group's products and services to provide more in-depth added value, thereby improving customer loyalty and achieving technological innovation and industry advancement with downstream partners.

Orderly capacity expansion and steady development are the Group's guidelines and ideas for capacity building during the Reporting Period. The reasonable expansion of production capacity can not only respond to the development needs of different downstream industries in a timely manner, but also balance the distribution of the Group's resources, achieve forward-looking planning, guide the sales team to receive orders in an orderly manner, as well as facilitate the efficient operation of the operating system and the successful achievement of the final financial goals. The Group will continue to select high-return downstream sectors and product portfolios under the production capacity condition of "tight balance between supply and demand", so as to achieve steady growth in sales revenue, profit and production efficiency. Meanwhile, the timely launch of the manufacturing base in Malaysia also marks the Group's determination and attitude to penetrate into the global market and adhere to the balance between domestic and overseas markets.

In the second half of 2021, the markets outside China gradually recovered. With the further development of the Group's overseas subsidiaries, the Group's overseas business also gradually recovered. In the coming years, the Group's domestic and overseas business and market layout will be further balanced. In the post-pandemic era, countries around the world will re-build their national strategies from multiple perspectives such as sustainable green development, food and pharmaceutical safety, and energy security, which will further accelerate the transfer of new material technologies to all over the world and a new round of global industrial infrastructure construction. The development of the Group has witnessed the biggest driver of the development of human civilisation, which has always been the pursuit of a healthier life, a greener world and a better future.

Relying on business support, industry support and technical support, the Group will continue to uphold the spirit of innovation, pursue breakthrough and advancement, adhere to the layout in the entire industry chain, keep up with the innovation in downstream industries, and strive for simultaneous growth and advancement with customers and employees. By maintaining outstanding performance and sound growth, we endeavour to give back to society and deliver returns to all investors, customers, employees and partners.

REVIEW OF FINANCIAL DATA

During the Reporting Period, the Group recorded revenue of approximately RMB4,278,847,000, representing a year-on-year increase of approximately 43.7%. During the Reporting Period, the Group's profit for the year attributable to owners of the parent company was approximately RMB380,552,000, representing a year-on-year increase of approximately 31.5%.

Revenue

During the Reporting Period, the Group recorded revenue of approximately RMB4,278,847,000, representing a year-on-year increase of approximately 43.7% as compared to approximately RMB2,978,626,000 for the year ended 31 December 2020. The increase in revenue was mainly attributable to the revenue generated from three major industries, namely chemical industry, pharmaceutical industry and electronic chemical industry.

	For the year ended 31 December					
Revenue	**2021**		2020		Increase/ (decrease)	Year-on-year change
by end application	***RMB'000***	***Proportion***	*RMB'000*	*Proportion*	*RMB'000*	
Electronic chemical	**441,742**	**10.3%**	70,100	2.4%	371,642	530.2%
Chemical	**1,670,471**	**39.0%**	1,024,330	34.4%	646,141	63.1%
Daily chemical	**157,330**	**3.7%**	294,975	9.9%	(137,645)	-46.7%
Raw materials of power battery*	**261,270**	**6.1%**	388,799	13.1%	(127,529)	-32.8%
Oil and gas	**258,516**	**6.0%**	211,490	7.1%	47,026	22.2%
Pharmaceutical	**1,302,977**	**30.5%**	769,314	25.8%	533,663	69.4%
Others	**186,541**	**4.4%**	219,618	7.3%	(33,077)	-15.1%
Total	**4,278,847**	**100.0%**	2,978,626	100.0%	1,300,221	43.7%

* *Raw materials of power battery include mining and metallurgy industry.*

Cost of sales

During the Reporting Period, the cost of sales increased by approximately RMB967,954,000, or approximately 45.3%, to approximately RMB3,102,476,000 from approximately RMB2,134,522,000 for the year ended 31 December 2020. The increase in cost of sales was slightly higher than that of revenue, mainly due to the fact that (1) the once-off social insurance reduction and exemption granted by the government due to the COVID-19 for 2020 and no such grants for 2021; (2) the prolonged execution cycle after the resumption of suspended projects in the daily chemical industry, resulting in an increase in costs; and (3) higher raw material costs for some strategic orders.

	For the year ended 31 December					
	2021		2020		Increase/ (decrease)	Year-on-year change
Cost of sales	***RMB'000***	***Proportion***	*RMB'000*	*Proportion*	*RMB'000*	
Raw materials and consumables	**2,037,680**	**65.7%**	1,379,410	64.6%	658,270	47.7%
Direct labour costs	**406,600**	**13.1%**	316,148	14.8%	90,452	28.6%
Outsourcing fees	**249,441**	**8.0%**	141,045	6.6%	108,396	76.9%
Installation and repair cost	**182,676**	**5.9%**	120,883	5.7%	61,793	51.1%
Depreciation	**57,291**	**1.8%**	52,375	2.5%	4,916	9.4%
Impairment losses on assets	**(9,071)**	**–0.3%**	(8,741)	–0.4%	(330)	3.8%
Others (indirect labour cost + design fees)	**177,859**	**5.8%**	133,402	6.2%	44,457	33.3%
Total	**3,102,476**	**100.0%**	2,134,522	100.0%	967,954	45.3%

Gross profit

During the Reporting Period, the Group recorded gross profit of approximately RMB1,176,371,000, representing an increase of approximately 39.4% as compared to approximately RMB844,104,000 for the year ended 31 December 2020, and a gross profit margin of approximately 27.5%, representing a decrease of approximately 0.8% as from approximately 28.3% in 2020.

The gross profit and gross profit margin of each downstream industry are as follows:

	For the year ended 31 December					
Gross profit by end application	**2021** *RMB'000*	*Proportion*	2020 *RMB'000*	*Proportion*	Increase/ (decrease) *RMB'000*	Year-on-year change
Electronic chemical	**108,359**	**24.5%**	17,679	25.2%	90,680	-0.7%
Chemical	**413,645**	**24.8%**	296,530	28.9%	117,115	-4.1%
Daily chemical	**35,791**	**22.7%**	97,880	33.2%	(62,089)	-10.5%
Raw materials of power battery*	**86,975**	**33.3%**	121,458	31.2%	(34,483)	2.1%
Oil and gas	**62,855**	**24.3%**	48,267	22.8%	14,588	1.5%
Pharmaceutical	**402,978**	**30.9%**	172,674	22.4%	230,304	8.5%
Others	**65,768**	**35.3%**	89,616	40.8%	(23,848)	-5.5%
Total	**1,176,371**	**27.5%**	844,104	28.3%	332,267	-0.8%

* *Raw materials of power battery include mining and metallurgy industry.*

Electronic chemical: The gross profit of the Group's electronic chemical industry increased by approximately RMB90,680,000 from approximately RMB17,679,000 for the year ended 31 December 2020 to approximately RMB108,359,000 for the year ended 31 December 2021. The gross profit margin remained relatively stable during 2021 and 2020.

Chemical: The gross profit of the chemical industry of the Group increased by approximately RMB117,115,000 from approximately RMB296,530,000 for the year ended 31 December 2020 to approximately RMB413,645,000 for the year ended 31 December 2021. The gross profit margin decreased from approximately 28.9% for the year ended 31 December 2020 to approximately 24.8% for the year ended 31 December 2021. The decrease in gross profit margin was mainly due to the fact that the Group undertook certain projects with relatively lower gross profit to secure new customers during the year and incurred additional costs in some special processing techniques of special materials.

Daily chemical: The gross profit of the Group's daily chemical industry decreased by approximately RMB62,089,000 from approximately RMB97,880,000 for the year ended 31 December 2020 to approximately RMB35,791,000 for the year ended 31 December 2021. The gross profit margin decreased from approximately 33.2% for the year ended 31 December 2020 to approximately 22.7% for the year ended 31 December 2021. The decrease in gross profit margin was mainly due to the increase in costs as a result of the prolonged execution cycle after the resumption of suspended projects during the year and the increase in ocean freight price in the first half of the year.

Raw materials of power battery: The gross profit of the Group's raw materials of power battery industry decreased by approximately RMB34,483,000 from approximately RMB121,458,000 for the year ended 31 December 2020 to approximately RMB86,975,000 for the year ended 31 December 2021. The gross profit margin increased from approximately 31.2% for the year ended 31 December 2020 to approximately 33.3% for the year. The increase in gross profit margin was mainly due to the enhanced cost control of the Group with its extensive production experience of mature products.

Oil and gas: The gross profit of the Group's oil and gas industry increased by approximately RMB14,588,000 from approximately RMB48,267,000 for the year ended 31 December 2020 to approximately RMB62,855,000 for the year ended 31 December 2021. The gross profit margin increased from approximately 22.8% for the year ended 31 December 2020 to approximately 24.3% for the year ended 31 December 2021. The increase in gross profit margin was mainly because the projects undertaken during the year included core thick-wall equipment that required special qualification and certification, with complex techniques and high production difficulties, which generated higher gross profit.

Pharmaceutical: The gross profit of the Group's pharmaceutical industry increased by approximately RMB230,304,000 from approximately RMB172,674,000 for the year ended 31 December 2020 to approximately RMB402,978,000 for the year ended 31 December 2021. The gross profit margin increased from approximately 22.4% for the year ended 31 December 2020 to approximately 30.9% for the year ended 31 December 2021. The increase in gross profit margin was mainly because the Group undertook certain high value-added reaction systems with complex processes and the further promoted modular production during the year, including the first mRNA factory in PRC and products including a number of large volume (20,000L) bioreactors customised for international leading Contract Development and Manufacturing Organisation ("**CDMO**") which improved the gross profit level.

Other income/(loss)

The Group recorded other income of approximately RMB4,832,000 for the year ended 31 December 2021 while there was a loss of approximately RMB16,797,000 for the year ended 31 December 2020 which was mainly due to the decrease in net foreign exchange losses.

Selling and marketing expenses

The Group's selling and marketing expenses primarily consist of salaries and benefits paid to its sales and marketing staff, commissions, customer service fees, travel expenses and marketing and promotion expenses, which increased by approximately RMB33,397,000 from approximately RMB73,110,000 for the year ended 31 December 2020 to approximately RMB106,507,000 for the year ended 31 December 2021. Selling and marketing expenses accounted for approximately 2.5% of the Group's total revenue for the year ended 31 December 2021, which remained stable as compared to the year ended 31 December 2020. The increase in selling and marketing expenses was mainly due to (1) the increase in the headcounts of sales and marketing personnel in line with the expansion of business scale; (2) the increase in marketing and promotion expenses; and (3) the increase in commission fees paid to third parties for exploring new areas and new customers.

General and administrative expenses

The Group's administrative expenses primarily consist of salaries and benefits paid to management and administrative staff, office expenses and consulting fees. Administrative expenses of the Group increased by approximately RMB97,467,000 from approximately RMB277,153,000 for the year ended 31 December 2020 to approximately RMB374,620,000 for the year ended 31 December 2021. General and administrative expenses accounted for approximately 8.8% of the total revenue of the Group for the year ended 31 December 2021, representing a decrease of approximately 0.5% as compared to approximately 9.3% for the year ended 31 December 2020. The increase in administrative expenses was mainly due to

(1) the increase in share-based payment expenses of approximately RMB30,716,000 as the equity-settled share-based incentive scheme was adopted on 1 July 2020; (2) the increase in salary and benefit expenses due to the increase in headcounts of management and administrative personnel along with the expansion of business scale, coupled by the normal payment of social insurance fee in 2021. Such fee was reduced by the government in 2020 due to the COVID-19 pandemic; (3) the increase in depreciation and amortisation expenses due to the continuous increase in long-term asset investment; (4) the increase in travelling and entertainment expenses due to business growth; and (5) the continuous improvement of compliance level after the listing of the Company's Shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 June 2021, resulting in an increase in consulting fees and professional service fees.

Research and development expenses

The Group's research and development expenses increased significantly by approximately RMB100,849,000 from approximately RMB125,779,000 for the year ended 31 December 2020 to approximately RMB226,628,000 for the year ended 31 December 2021. Research and development expenses accounted for approximately 5.3% of the Group's total revenue for the year ended 31 December 2021, representing an increase of approximately 1.1% as compared to approximately 4.2% for the year ended 31 December 2020. The increase was primarily due to the Group's increased investment in the research and development of new products and new technologies in the raw materials of power battery and biopharmaceutical industries, as well as the strengthening of school-enterprise joint development.

Finance costs

The Group's finance costs increased by approximately RMB10,333,000 from approximately RMB12,456,000 for the year ended 31 December 2020 to approximately RMB22,789,000 for the year ended 31 December 2021. The increase in finance costs was mainly due to the interest incurred from the new bank loans after May 2020.

Income tax expenses

Income tax expenses increased by approximately RMB15,227,000 from approximately RMB52,045,000 for the year ended 31 December 2020 to approximately RMB67,272,000 for the year ended 31 December 2021. For the year ended 31 December 2021, the effective tax rate of the income tax was 15.0%, representing a decrease of approximately 0.2% from approximately 15.2% for the year ended 31 December 2020. The Group derived its profit mainly from two domestic high-tech enterprises and enjoyed a preferential enterprise income tax rate of 15%.

Profit for the year

By reasons of the foregoing, the Group recorded profit of approximately RMB380,552,000 for the year ended 31 December 2021, representing an increase of approximately RMB91,167,000 from approximately RMB289,385,000 for the year ended 31 December 2020, which was mainly due to the significant increase in revenue as a result of the expansion of business scale, partially offset by (1) the increase in share-based payment expenses of approximately RMB30,716,000; (2) increased investment in research and development, resulting in an increase in research and development expenses of approximately RMB100,849,000; and (3) the once-off social insurance reduction and exemption of approximately RMB35,766,000 granted by the government due to the COVID-19 pandemic in 2020 and no such grants for 2021.

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

The Group believes that the adjusted financial measures are useful for understanding and evaluating the underlying 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 non-operating items that the Group does not consider indicative of the performance of the Group's core business. The Group's management believes that these non-HKFRS financial measures are widely accepted and applied in the industry in which the Group operates. However, these non-HKFRS financial measures should not be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRS. Shareholders and potential investors of the Company should not view the following adjusted results on a stand-alone basis or as a substitute for results under HKFRSs, and such non-HKFRS financial measures may not be comparable to similarly titled measures presented by other companies.

EBITDA and adjusted EBITDA

EBITDA for the year ended 31 December 2021 amounted to approximately RMB563,542,000, representing an increase of approximately RMB132,987,000 or approximately 30.9% from approximately RMB430,555,000 for the year ended 31 December 2020. Excluding the listing expenses and share-based payments, and excluding the impact of social insurance reduction and exemption in 2020, the adjusted EBITDA for the year ended 31 December 2021 was approximately RMB652,147,000, representing an increase of approximately RMB201,121,000 or approximately 44.6% from approximately RMB451,026,000 for the year ended 31 December 2020.

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Profit for the year	**380,552**	289,385
Add: Income tax expenses	**67,272**	52,045
Finance costs	**22,789**	12,456
Depreciation	**79,260**	70,544
Amortisation	**13,669**	6,125
EBITDA	**563,542**	430,555
Add: Share-based payments	**67,551**	36,835
Listing expense	**21,054**	19,402
Less: Social insurance reduction and exemption	**—**	35,766
Adjusted EBITDA	**652,147**	451,026

Trade and other receivables

The Group's trade and other receivables increased by approximately 58.4% from approximately RMB578,858,000 as at 31 December 2020 to approximately RMB916,679,000 as at 31 December 2021, which was mainly due to (1) the increase in trade receivables as a result of the increase in revenue; (2) the increased bills receivable due to the use of bank acceptance bills by certain customers; and (3) an increase in prepayments as the purchase of raw materials for more orders on hand.

Contract assets

The Group's contract assets increased by approximately 147.7% from approximately RMB246,061,000 as at 31 December 2020 to approximately RMB609,515,000 as at 31 December 2021, which was mainly due to the significant increase in sales orders entered into during the year, of which certain orders with large sum have been partially recognised as revenue, but have yet to reach the agreed time of cash collection.

Inventories

The Group's inventories increased by approximately 52.9% from approximately RMB804,069,000 as at 31 December 2020 to approximately RMB1,229,633,000 as at 31 December 2021, of which work in progress increased by approximately RMB364,449,000 and raw materials increased by approximately RMB61,115,000. The increase was mainly due to (1) the preparation of raw materials for orders newly entered into; and (2) the expansion in business scale which led to a significant increase in orders under production.

Trade and other payables

The Group's trade and other payables increased by approximately 49.8% from approximately RMB724,551,000 as at 31 December 2020 to approximately RMB1,085,560,000 as at 31 December 2021, which was mainly due to (1) the increase in trade payables as a result of the increase in purchase volume; and (2) the request by some suppliers to pay by bank acceptance bills, resulting in an increase in the balance of bills payables.

Contract liabilities

The Group's contract liabilities increased by approximately 157.7% from approximately RMB842,649,000 as at 31 December 2020 to approximately RMB2,171,901,000 as at 31 December 2021, mainly due to (1) the significant increase in sales orders entered into during the year and the management's efforts to strictly require advance payments for projects; and (2) the increase in the proportion of prepayments by certain customers who entered into bulk orders with the Group.

Borrowings and gearing ratio

The total borrowings of the Group decreased from approximately RMB443,532,000 as at 31 December 2020 to approximately RMB370,002,000 as at 31 December 2021. As at 31 December 2021, all borrowings were at fixed interest rates and were bank borrowings denominated in RMB.

Gearing ratio is calculated by dividing interest-bearing borrowings by total equity. The Group's gearing ratio decreased from approximately 44.4% as at 31 December 2020 to approximately 18.4% as at 31 December 2021, primarily due to the increase in share capital as a result of the listing of the Company's Shares on the Stock Exchange on 28 June 2021 and the increase in reserves as a result of the earnings during the Reporting Period.

Liquidity and capital resources

The Shares were successfully listed on the Main Board of the Stock Exchange on 28 June 2021. As at 31 December 2021, the balance of cash and cash equivalents of the Group was approximately RMB1,545,079,000, as compared to approximately RMB424,428,000 as at 31 December 2020. The increase was mainly due to the increase in cash generated from operating activities and the net proceeds from the global offering of the Shares.

The liquidity of the Group mainly includes cash generated from operating activities, proceeds from the share offer and borrowings. The liquidity requirements mainly include general 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 are maintained to meet the liquidity requirements.

The Group had total bank facilities of RMB499,761,000, USD108,000,000, SEK300,000,000 and JPY18,400,000,000 (aggregately equivalent to RMB2,419,473,000), used bank facilities of RMB870,533,000, USD57,046,000 and EUR18,762,000 (aggregately equivalent to RMB1,369,695,000), and had unused available bank facilities of equivalently RMB1,049,778,000.

Contingent liabilities and guarantees

As at 31 December 2021, the Group did not have any material contingent liabilities or guarantees.

Important events after the Reporting Period

On 5 January 2022, an aggregate of 29,459,700 restricted share units were granted to 149 employees who receive and agree to accept an award of restricted share units under restricted share unit scheme ("**Grantees**") at nil consideration. The Grantees are existing employees of the Group. The grant of an aggregate of 29,459,700 restricted share units to the Grantees shall be satisfied by (i) allotting and issuing new Shares to the trust at HK$4.17 per Share (to be held by the trustee to be appointed (the "**Trustee**") upon exercise); and/or (ii) directing and procuring the Trustee to receive existing Shares from any shareholder or purchase existing Shares (whether on-market or otherwise). For further details, please refer to the Company's announcement dated 5 January 2022.

On 17 January 2022, the Group set up a new subsidiary, Shanghai Morimatsu Biotechnology Co., Ltd. (上海森松生物科技有限公司) ("**Morimatsu Biotechnology**"). The Company holds 78.83% shares indirectly and has control over Morimatsu Biotechnology. The register capital of Morimatsu Biotechnology is RMB8,975,000 and the primary activity is research and development of biochemical technology. A capital contribution of RMB250,000 has been injected into Morimatsu Biotechnology.

On 28 February 2022, Pharmadule Morimatsu AB (a direct wholly-owned subsidiary of the Company) and Morimatsu Industry Co., Ltd entered into a share acquisition agreement, Morimatsu Industry Co., Ltd agreed to sell, and Pharmadule Morimatsu AB agreed to acquire entire issued shares of common stock of Morimatsu Houston Corporation, for a total consideration of USD1,295,000 (equivalent to approximately HK$10,101,000). For further details, please refer to the Company's announcement dated 28 February 2022.

Save as disclosed herein, the Group does not have any other important events after the Reporting Period and up to the date of this announcement.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had a total of 3,211 employees, including more than 400 research and development personnel, accounting for more than 10% of the total number of employees. The Group has a comprehensive remuneration and welfare system and an effective performance appraisal system as required by laws, and determines the remuneration of employees based on their positions and performance. The Group's remuneration policies seek to provide fair market remuneration in form and value to attract, retain and motivate high quality staff. Remuneration packages are set at comparable and competitive levels with other companies in the industry and the market to compete for a similar talent pool. In accordance with the applicable PRC laws and regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident funds for our employees.

The Company has also adopted a Pre-IPO Share Option Scheme, a Post-IPO Share Option Scheme and a Restricted Share Unit Award Scheme. Specific information will be available in the annual report of the Company for the year ended 31 December 2021.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 29 July 2021, the Company entered into an investment agreement with the Administrative Committee of Changshu Economic and Technological Development Zone, pursuant to which, the Company plans to establish its high-end biopharma equipment manufacturing base project (the "**Project**") in Changshu Economic and Technological Development Zone. The Project has a planned site area of over 200,000 square meters. The Administrative Committee of Changshu Economic and Technological Development Zone intends to allow the Group to use it in two phases by way of land use rights grant. The Company established a new subsidiary, Morimatsu (Suzhou) LifeScience Co., Ltd., (森松(蘇州)生命科技有限公司) ("**Morimatsu (Suzhou) LifeScience**") on 26 September 2021 through this project, which is wholly owned by the Company. The registered capital of Morimatsu (Suzhou) LifeScience is HK$780,000,000, and Morimatsu (Suzhou) LifeScience is principally engaged in the manufacturing of high-end intelligent equipment and complete sets of professional precision equipment in the fields of biopharmaceuticals, daily chemicals and electronic chemicals. Please refer to the announcement of the Company dated 20 August 2021 for details of this Project.

On 27 August 2021, Morimatsu Technology and Service Company Limited ("**Morimatsu T&S**"), a directly wholly-owned subsidiary of the Company entered into a joint venture agreement with Dialog Fabricators Sdn Bhd, pursuant to which both parties agreed to establish a joint venture in Malaysia, namely, Morimatsu Dialog (Malaysia) Sdn. Bhd. Morimatsu Dialog (Malaysia) Sdn. Bhd. was established on 14 September 2021 and is principally engaged in the production, manufacturing and sales of process equipments and module units in fields like oil and gas, chemicals, raw materials of power battery, environmentally friendly materials, etc.. Morimatsu Dialog (Malaysia) Sdn. Bhd. is held as to 51% by Morimatsu T&S, with a capital contribution of RM7,140,000. The capital contribution was completed in December 2021.

Save as disclosed above, there were no significant investments entered into by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting (the "**AGM**") of the Company will be held on Thursday, 16 June 2022. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 13 June 2022 to Thursday, 16 June 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, No. 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 June 2022.

PURCHASE, SALE AND REPURCHASE OF SHARES

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. For the year ended 31 December 2021, the Company has complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions of the CG Code for the year ended 31 December 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiry to all Directors, they have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2021.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises one non-executive Director, Mr. Matsuhisa Terumoto, and two independent non-executive Directors, Ms. Chan Yuen Sau Kelly and Mr. Kanno Shinichiro. The chairman of the Audit Committee is Ms. Chan Yuen Sau Kelly. The Group's annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee.

AUDITOR

The Company has engaged KPMG as its auditor for the year ended 31 December 2021. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming AGM.

SCOPE OF WORK OF THE COMPANY' S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.morimatsu-online.com). The annual report of the Company for the Reporting Period containing all the information required by the Listing Rules will be despatched to the Shareholders and made available for review on the websites of the Company and the Stock Exchange in due course.

By order of the Board
Morimatsu International Holdings Company Limited
Nishimatsu Koei
Chief executive officer and executive Director

Hong Kong, 25 March 2022

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.