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 2022

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 2022 (the "**Interim Period**" or "**Reporting Period**") to the shareholders of the Company.

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated *Note 1*)
Revenue	**2,964,865**	1,855,673
Gross profit	**788,424**	485,903
Gross profit margin	**26.6%**	26.2%
Net profit	**302,536**	142,843
Net profit margin	**10.2%**	7.7%
Amount of new orders	**5,111,849**	3,406,699
Adjusted EBITDA *Note 2*	**470,072**	277,875
Basic earnings per share *(RMB)*	**0.29**	0.19
Diluted earnings per share *(RMB)*	**0.28**	0.18
	As at 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	**7,881,632**	4,880,729

Note 1: On 28 February 2022, the Group completed the acquisition of entire issued shares of common stock of Morimatsu Houston Corporation, the acquisition was regarded as a business combination under common control by the Group in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. The financial information of the Group for the year ended 31 December 2021 and for the six months ended 30 June 2021 was restated accordingly to comply with the relevant accounting standards.

Note 2: Adjusted EBITDA represents the profit from operations, adjusted for the exclusion of non-cash share-based compensation, gains from joint ventures, listing expenses, depreciation and amortization.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the six months ended 30 June 2022 – unaudited

	Note	**Six months ended 30 June**	
		2022	2021
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
			(restated)
Revenue	*3*	**2,964,865**	1,855,673
Cost of sales		**(2,176,441)**	(1,369,770)
Gross profit		**788,424**	485,903
Other income	*4*	**46,149**	4,485
Selling and marketing expenses		**(95,437)**	(44,106)
General and administrative expenses		**(228,481)**	(184,874)
Research and development expenses		**(145,505)**	(77,436)
Impairment losses on trade receivables and contract assets		**(14,876)**	(4,881)
Profit from operations		**350,274**	179,091
Finance costs	*5(a)*	**(7,900)**	(11,505)
Share of results of joint venture		**(1,146)**	–
Profit before taxation	*5*	**341,228**	167,586
Income tax	*6*	**(38,692)**	(24,743)
Profit for the period		**302,536**	142,843
Attributable to:			
Equity shareholders of the Company		**302,672**	142,843
Non-controlling interests		**(136)**	–
Profit for the period		**302,536**	142,843
Earnings per share	*7*		
Basic (RMB)		**0.29**	0.19
Diluted (RMB)		**0.28**	0.18

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2022 – unaudited

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited) (restated)
Profit for the period	**302,536**	142,843
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	**2,485**	868
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	**(371)**	(2,450)
Other comprehensive income for the period	**2,114**	(1,582)
Total comprehensive income for the period	**304,650**	141,261
Attributable to:		
Equity shareholders of the Company	**304,786**	141,261
Non-controlling interests	**(136)**	–
Total comprehensive income for the period	**304,650**	141,261

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

at 30 June 2022 – unaudited

	Note	**As at 30 June 2022** ***RMB'000*** **(unaudited)**	As at 31 December 2021 *RMB'000* (restated)
Non-current assets			
Property, plant and equipment		**1,300,596**	1,227,021
Right-of-use assets		**116,426**	106,758
Intangible assets		**36,683**	33,702
Interest in joint venture		**9,731**	10,878
Deferred tax assets		**3,076**	–
Other non-current assets		**270,851**	15,975
		1,737,363	1,394,334
Current assets			
Inventories		**1,372,395**	1,229,633
Contract assets		**621,512**	609,515
Trade and other receivables	*8*	**1,273,602**	921,456
Financial assets measured at fair value through profit or loss ("**FVPL**")		**223,146**	695
Cash and cash equivalents		**1,483,545**	1,548,875
		4,974,200	4,310,174
Current liabilities			
Trade and other payables	*9*	**1,185,580**	1,094,663
Contract liabilities		**2,633,074**	2,171,901
Interest-bearing borrowings		**347,506**	370,002
Financial liabilities measured at fair value through profit or loss ("**FVPL**")		**9,638**	–
Lease liabilities		**5,138**	2,528
Current taxation		**38,608**	33,881
Provisions		**21,086**	17,362
		4,240,630	3,690,337
Net current assets		**733,570**	619,837
Total assets less current liabilities		**2,470,933**	2,014,171

	Note	**As at 30 June 2022** *RMB'000* **(unaudited)**	As at 31 December 2021 *RMB'000* (restated)
Non-current liabilities			
Interest-bearing borrowings		**79,533**	–
Lease liabilities		**9,114**	1,883
Deferred tax liabilities		**72**	4,126
Deferred income		**330**	353
		89,049	6,362
Net assets		**2,381,884**	2,007,809
Capital and reserves			
Share capital	*10(b)*	**573,396**	571,769
Reserves		**1,808,624**	1,436,040
Total equity attributable to equity shareholders of the Company		**2,382,020**	2,007,809
Non-controlling interests		**(136)**	–
Total equity		**2,381,884**	2,007,809

NOTES TO UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION

(a) Basis of preparation

This preliminary announcement of the Company's interim results 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). It was authorised for issue on 18 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The financial information relating to the financial year ended 31 December 2021 that is included in the preliminary announcement of the Company's interim results 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 2021 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.

(b) Merger accounting and restatements

On 28 February 2022, Pharmadule Morimatsu AB, a direct wholly-owned subsidiary of the Company, entered into a share acquisition agreement to acquire the entire issued shares of common stock of Morimatsu Houston Corporation from Morimatsu Holdings Co., Ltd., the parent company of the Company, for a consideration of USD1,295,000.

Prior to and after the reorganisation and the acquisition, the Company and its subsidiaries (collectively, the "**Group**") and Morimatsu Houston Corporation were all under the common control of Morimatsu Holdings Co., Ltd.. The control is not transitory and, consequently, there was a continuation of risks and benefits to Morimatsu Holdings Co., Ltd.. Accordingly, the reorganisation and acquisition is treated as a combination of businesses under common control, and Accounting Guideline 5 ("**AG5**"), Merger Accounting for Common Control Combinations, issued by HKICPA has been applied. The consolidated financial statements of the Group have been therefore prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The net assets of Morimatsu Houston Corporation have been consolidated using the existing book values from the perspective of Morimatsu Holdings Co., Ltd..

Comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the comparative period unless the combining entities or businesses first came under common control at a later date.

The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income include the results of combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income also take into account the profit or loss attributable to the non-controlling interest recorded in the consolidated financial statements of the controlling party. The effects of all transactions between the combining entities or businesses, whether occurring before or after the common combination, are eliminated. The opening balance at 1 January 2021 have been restated, with consequential adjustments to comparatives for the year ended 31 December 2021 and for the six months ended 30 June 2021.

A uniform set of accounting policies is adopted when preparing the consolidated financial statements.

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included incremental costs and allocation of other costs when determining whether a contract was onerous. The amendments do not have a material impact on these financial statements.

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	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– traditional pressure equipment	**1,364,733**	1,104,762
– reactor	**612,396**	414,883
– heat exchanger	**324,659**	220,716
– tank	**221,852**	338,071
– tower	**205,826**	131,092
– modular pressure equipment	**1,534,088**	701,584
– others*	**14,623**	9,917
Sales of products	**2,913,444**	1,816,263
-Pressure equipment design, validation, and maintenance service	**51,421**	39,410
Service	**51,421**	39,410
Revenue of operations	**2,964,865**	1,855,673

* 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 customer only with whom transactions have exceeded 10% of the Group's revenues of six months ended 30 June 2022. Revenues from those customers during the six months ended 30 June 2022 and 2021 are set out below:

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	*	186,318
Customer B	**472,232**	*

* 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.

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
Mainland China	**1,656,474**	1,354,158
North America	**97,044**	62,798
Asia (excluding mainland China)	**282,045**	111,038
Europe	**405,055**	157,051
Africa	**482,698**	16,714
Others *(Note)*	**41,549**	153,914
Total	**2,964,865**	1,855,673

Note: Others mainly included countries in South America and Oceania.

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.

(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	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(i)*	**2,195**	2,851
Interest income	**2,972**	373
Net realised gains on financial assets measured at fair value through profit or loss	**5,058**	1,148
Net foreign exchange gains/(losses)	**39,958**	(1,344)
Changes in fair value of financial assets and liabilities	**(4,763)**	80
Net loss on disposal of property, plant and equipment	**–**	(239)
Others	**729**	1,616
	46,149	4,485

(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.

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
(a) Finance costs:		
Interest on interest-bearing borrowings	**7,869**	11,461
Interest on lease liabilities	**31**	44
	7,900	11,505
(b) Staff costs:		
Salaries, wages and other benefits	**390,275**	301,476
Equity-settled share-based payment expenses *(Note 10(c))*	**69,425**	33,775
Contributions to defined contribution retirement plans *(i)*	**39,983**	31,406
	499,683	366,657

(i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries 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	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
(c) Other items:		
Amortisation of intangible assets	**7,847**	6,274
Depreciation charge		
– owned property, plant and equipment	**40,187**	36,561
– right-of-use assets	**3,485**	2,328
Research and development costs *(i)*	**145,505**	77,436
Increase in provisions	**6,173**	1,412
Cost of inventories *(ii)*	**2,176,441**	1,370,421
Inventory write-down and losses net of reversals	**4,532**	7,541

(i) Research and development costs included staff costs of RMB73,046,000 (six months ended 30 June 2021: RMB52,479,000), depreciation and amortisation expenses of RMB5,077,000 (six months ended 30 June 2021: RMB2,898,000) for the six months ended 30 June 2022, 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 RMB262,693,000 (six months ended 30 June 2021: RMB222,887,000), depreciation and amortisation expenses of RMB30,550,000 (six months ended 30 June 2021: RMB29,978,000) for the six months ended 30 June 2022, 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	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
Provision for the year	**45,822**	27,275
Deferred tax:		
Origination and reversal of temporary differences	**(7,130)**	(2,532)
Actual tax expense	**38,692**	24,743

(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% for the six months ended 30 June 2022 and 2021. 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 2022 and 2021.

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% for the six months ended 30 June 2022 and 2021.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc and Morimatsu Houston Corporation were subject to the United States Corporate Tax at a rate of 21% for the six months ended 30 June 2022 and 2021, 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% for the six months ended 30 June 2022 and 2021. No provision for India Corporate Tax was made for Pharmadule Engineering India Private Limited as the company did not have income subject to India Corporate Tax for the six months ended 30 June 2022 and 2021.

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% for the six months ended 30 June 2022 and 2021. No provision for Japan Corporate Tax was made for Morimatsu Technology and Service Company Limited as the company did not have income subject to Japan Corporate Tax for the six months ended 30 June 2022 and 2021.

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. was subject to the Italy Corporate Tax at a rate of 24% for the six months ended 30 June 2022 and 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 2022 and 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%	2021–2022
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("**Morimatsu Heavy Industry**") (森松(江蘇)重工有限公司)*	15%	2021–2022

* The English translation of these entities is for reference only. The official name of these entities 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 200% on the amount actually incurred for each of the year ended 31 December 2022 and 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 mainly arose 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 RMB302,672,000 (six months ended 30 June 2021: RMB142,843,000) and the weighted average of 1,037,718,000 ordinary shares (2021: 752,055,000 shares) 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 RMB302,672,000 (six months ended 30 June 2021: RMB142,843,000) and the weighted average number of ordinary shares of 1,091,917,000 (2021: 784,355,000 shares).

8 TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 ***RMB'000*** **(unaudited)**	As at 31 December 2021 *RMB'000* (restated)
Bills receivable	**142,262**	83,398
Trade debtors net of loss allowance	**752,840**	609,562
Other debtors	**50,516**	23,285
Financial assets measured at amortised cost	**945,618**	716,245
Prepayments	**327,984**	205,211
	1,273,602	921,456

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 30 June 2022 *RMB'000* **(unaudited)**	As at 31 December 2021 *RMB'000* (restated)
Within 3 months	**366,548**	405,541
More than 3 months but less than 1 year	**322,672**	144,283
More than 1 year but less than 2 years	**57,325**	57,482
More than 2 years	**6,295**	2,256
	752,840	609,562

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 2022 *RMB'000* **(unaudited)**	As at 31 December 2021 *RMB'000* (restated)
Bills payable	**6,255**	46,319
Trade payables	**911,830**	718,425
Other payables and accruals	**267,495**	329,919
Financial liabilities measured at amortised cost	**1,185,580**	1,094,663

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 30 June 2022 *RMB'000* **(unaudited)**	As at 31 December 2021 *RMB'000* (restated)
Within 3 months	**735,506**	561,591
More than 3 months but less than 6 months	**128,769**	99,990
More than 6 months but less than 12 months	**35,624**	40,214
More than 1 year but less than 2 years	**5,584**	12,611
More than 2 years	**6,347**	4,019
	911,830	718,425

10 CAPITAL AND RESERVES

(a) Dividend

The Board has resolved not to propose the payment of any interim dividend for the six months ended 30 June 2022 (30 June 2021: nil).

(b) Share capital

Issuance of ordinary shares to the Company

The Company issued 26,476,000 ordinary shares for exercise of share option on 2 June 2022.

(c) Equity settled share-based transactions

The Group has a share option scheme (the "**Pre-IPO Share Option Scheme**") which was adopted on 1 July 2020 whereby the directors of the Group 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 Group and is settled gross in shares.

As at 1 July 2020, the Group 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 Group recognised an expense of RMB33,860,000 in the six months period ended 30 June 2022 (six months ended 30 June 2021: RMB33,775,000), which is by reference to the fair value of the options granted on the measurement date (also referred as "grant date" herein), and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

Options to subscribe for an aggregate of 709,150 shares were exercised on and after 28 June 2022.

The Group has a Restricted Share Units Scheme (the "**RSU Scheme**") which was adopted on 15 December 2021 whereby 29,459,700 restricted share units ("**RSU**") were granted to 149 qualified employees on 5 January 2022. The option vests after one year from 5 January 2022 and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Group at the purchase price of HKD4.17.

The Group recognised an expense of RMB35,565,000 in the six months period ended 30 June 2022 (six months ended 30 June 2021: nil), which is by reference to the fair value of the options on the vesting date, and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

No RSU options were exercised during the six months ended 30 June 2022.

(d) Other reserve

Other reserve mainly represented the differences between the considerations paid and the relevant carrying value of net assets of the subsidiaries acquired, after eliminating the internal transaction.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT VISION AND ORGANIZATIONAL VALUES

The Group is committed to becoming the world's leading provider of core equipment, process systems and digital intelligence engineering solutions.

The Group serves the value needs of customers and provides services covering the full life cycle based on digital technology, including multiple elements such as joint research and development, feasibility studies, project consulting, optimization of existing process routes, design of operation and maintenance platforms, tracking and improvement plans, etc., thereby helping customers to continuously achieve technological innovation and product iteration, and jointly developing sustainable competitive advantages in their industries.

PRINCIPAL BUSINESSES AND SECTORS

The Group's principal activities are the design, manufacture, installation and operation and maintenance of core process equipment, process system and total solutions mainly for chemical reactions, biological reactions and polymerization. The Group currently provides services to downstream industries/fields including oil and gas, daily chemicals, new chemical materials, pharmaceuticals (including biopharmaceuticals and chemical synthesis drugs), raw materials of power battery (including metallic ores, raw materials for lithium batteries and intermediate chemical raw materials) and electronic chemicals (including the production of raw materials for photovoltaics and high-purity chemical reagents), etc.

During the Reporting Period, the Group's revenue and new orders were mainly derived from the following industries/fields: 1) pharmaceuticals and biopharmaceuticals; 2) raw materials of power battery; 3) new chemical materials; and 4) electronic chemicals, among which, the two most active fields are the raw materials of power battery and biopharmaceuticals. Meanwhile, benefiting from the gradual recovery of the world economy from the novel coronavirus disease 2019 ("**COVID-19**") pandemic, the Group also achieved significant growth in the amount of new orders in the fields of oil and gas and daily chemicals.

The Group's business in the field of raw materials of power battery mainly focuses on the production of core reactors, process modules, process production lines and modular production facilities for ternary precursor, ternary cathode materials (including crude ore metal materials such as nickel and cobalt), electrolyte configuration, core electrolyte additives (lithium hexafluorophosphate, lithium difluorosulfonimide, and VC (vinylene carbonate), etc.), positive/negative electrode adhesives, separators, NMP (N-methylpyrrolidone) and solution recovery devices, etc. The Group also provides solutions such as process improvement and device optimization for the existing production facilities of its customers. In addition, the Group has conducted research and development in and set up plans for other new materials such as silicon carbon anode and carbon nanotube conductive agent.

In the field of biopharmaceuticals, the Group provides a wide range of technologies and products for downstream industries and customers at different stages from laboratory, clinical phase I, II, III to industrial production. It covers upstream and downstream products and diverse products for its renovation needs, including bioreactor/fermentation tank system, culture medium preparation system, harvest system, purification system, pharmaceutical solution preparation system, buffer solution preparation system and storage system, online solution preparation system, inactivation and CIP (Clean in Place) workstation system, isolator, disposable magnetic mixing system, disposable solution storage and mixing system, modular factory and clean decoration. The Group has also conducted research and development in and set up plans for instrument-grade and laboratory-grade equipment and single-use bioreactor solutions.

In the field of electronic chemicals, the Group mainly provides customers with the production systems for the wet electronic chemicals (including electronic-grade high-purity chemical reagents, such as parts-per-trillion ("**PPT**") Grade high-purity sulfuric acid, hydrogen peroxide and ammonium fluoride) widely used in the chip industry, other high-end integrated circuit product industries and liquid crystal panel industry, as well as the core equipment and complete sets of equipment in the field of photovoltaic raw materials (polysilicon), such as vapor deposition reactors and supporting systems. In addition, the Group also conducted research and development in and set up plans for photovoltaic silane gas, electronic-grade polysilicon and heterojunction equipment.

Set out below is the revenue of the major downstream industries for the Reporting Period and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts as at 30 June 2022. During the Reporting Period, 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.

Downstream Industry	**Revenue**	**Proportion**	**The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts**	**Proportion**
	RMB'000		*RMB'000*	
Electronic chemical	272,742	9.2%	1,157,378	14.7%
Chemical	860,220	29.0%	1,860,234	23.6%
Daily chemical	63,412	2.1%	467,725	5.9%
Raw materials of power battery*	374,343	12.6%	1,261,926	16.0%
Oil and gas	77,059	2.6%	1,022,022	13.0%
Pharmaceutical and biopharmaceutical	1,131,757	38.2%	1,910,266	24.2%
Others	185,332	6.3%	202,081	2.6%
Total	2,964,865	100.0%	7,881,632	100.0%

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

REVIEW ON BUSINESS PERFORMANCE FACTS

During the Reporting Period, the Group managed to record continuous growth in various financial data, with revenue, gross profit, net profit, new orders hitting record highs; as at the end of the Reporting Period, the number and amount of the Group's orders on hand also showed a significant growth momentum compared to the end of the corresponding period in 2021. Among them, revenue for the Reporting Period amounted to approximately RMB2,964,865,000, representing a year-on-year increase of approximately 59.8%; net profit for the Reporting Period was approximately RMB302,536,000, representing a year-on-year increase of approximately 111.8%; the number of new orders placed during the Reporting Period was 455, with a contract value of approximately RMB5,111,849,000, representing a year-on-year increase of approximately 50.1%; and as at 30 June 2022, the number of orders on hand was 555, with a contract value of approximately RMB7,881,632,000, representing a year-on-year increase of approximately 61.5%. It is expected that the expanded production capacity lately put into operation and the original production capacity of the Group will be fully utilized throughout 2022.

During the Reporting Period, Shanghai, where a main manufacturing base of the Group is located, experienced more than two months of lockdown due to the COVID-19 pandemic. Under the leadership of the management, all the employees of the Group took the bull by the horns, and managed to achieve record highs for all the key indicators despite the extremely unfavorable manufacturing conditions and tight delivery pressure. Looking forward to the second half of 2022, the Group will continue to make use of its effective production capacity, tap the potential, and take advantage of the rapid development period of various downstream industries, and the Group is confident that it will continue to maintain a good business performance.

SECTOR STRATEGY AND NEEDS OF POPULAR DOWNSTREAM INDUSTRIES

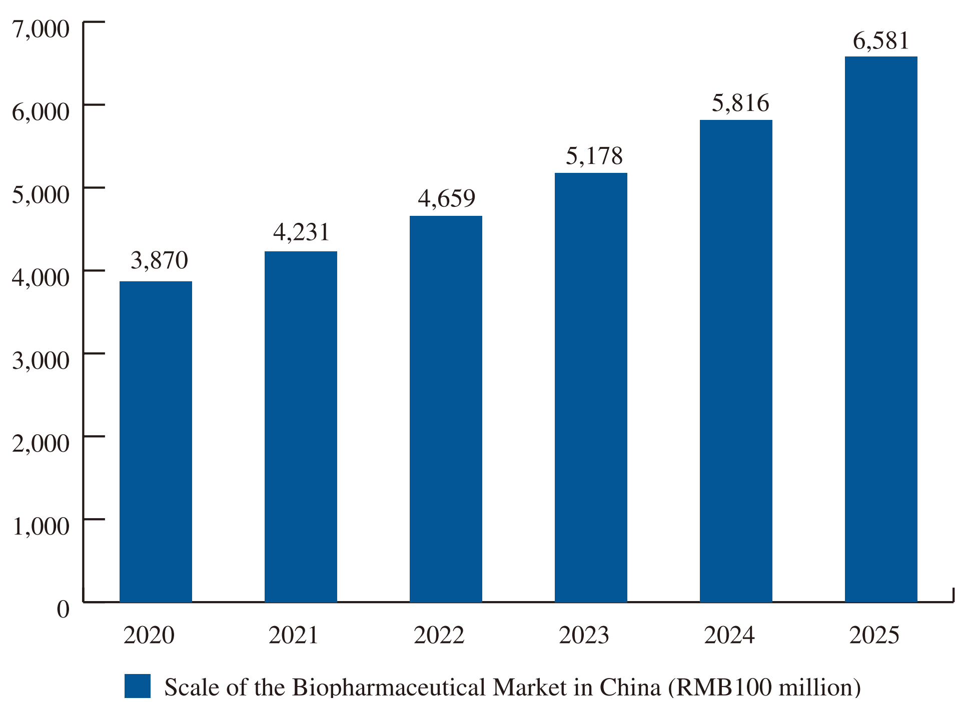
The Group's business mainly comes from 1) downstream industries with continuous innovation needs; 2) popular industries in the capital investment cycle; 3) emerging industries representing the future technological development trend; 4) industries and enterprises with long-term cooperation relationship; and 5) other industries and enterprises that can promote the sustainable growth of the Group.

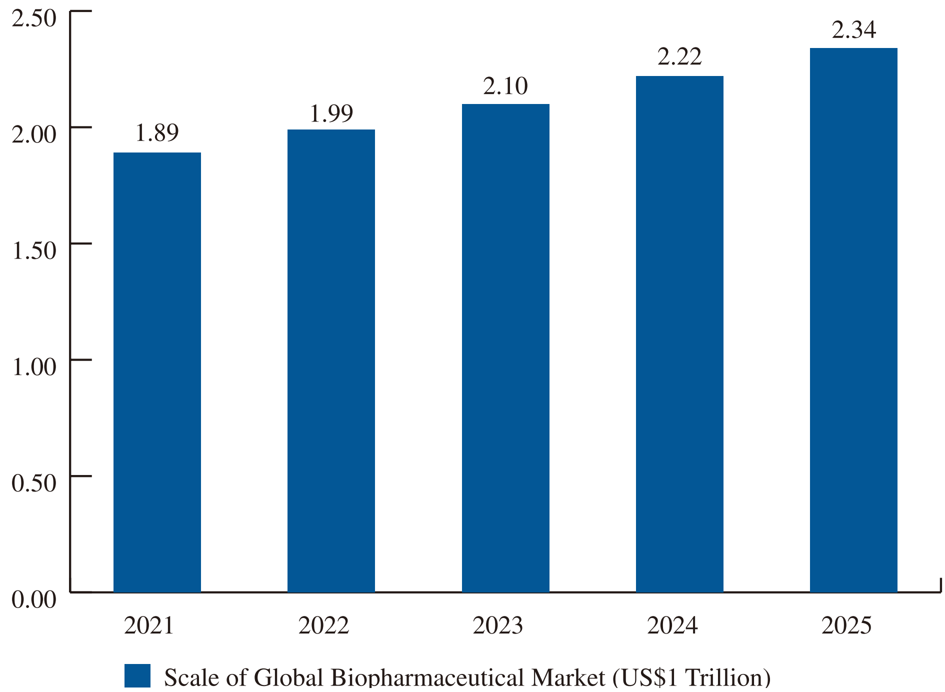
During the Reporting Period, the following four sectors were still the main sources of the Group's revenue and new orders: 1) biopharmaceuticals; 2) raw materials of power battery; 3) new chemical materials; and 4) electronic chemicals. Meanwhile, the Group also achieved encouraging performance growth in other traditional sectors, including 1) oil and gas; and 2) daily chemicals.

Biopharmaceuticals

On 10 May 2022, the National Development and Reform Commission of the State Council issued the 14th Five-Year Plan for Bioeconomic Development (《"十四五"生物經濟發展規劃》), which clearly stated to promote the integration and innovation of biotechnology and information technology, and accelerate the development of biomedicine, biological breeding, biological materials and bio-energy industries to expand and enhance bio-economy. With the development and breakthrough of cutting-edge fields such as preventive and therapeutic vaccines, gene therapy, immune cell therapy, stem cell therapy and cell reprogramming induced pluripotent stem cells (iPSC), the biopharmaceutical industry will enter a new stage of rapid development. At present, the five biopharmaceuticals with the highest market visibility are: blood products, recombinant proteins, vaccines, monoclonal antibodies, and cell therapy products.

Forecast on the Market Scale of the Biopharmaceutical Industry in 2020–2025





Source of data: Shenzhen Zero Power Intelligence Industrial Research Institute Co., Ltd. (深圳市中研普華產業研究院有限公司) ("**Zero Power Intelligence Industrial Research Institute**")

A series of factors, such as the per capita GDP in China reaching US$10,000, the raging of the COVID-19 pandemic, the state of an aging society and the inclusion of biological drugs in the national collective drug procurement, have promoted the technological iteration of biological drugs (such as vaccine products and nucleic acid drug products), new round of investment in biological medicines for the purpose of achieving economies of scale and the expectations of the advancement in biological medicines (advanced vaccine products, recombinant protein products and cell therapy products).

With the rapid introduction of modern medical technology into biotechnology, the biopharmaceutical industry has become one of the most active industries with the greatest diversity of technologies and the fastest technological progress. According to the forecast of Zero Power Intelligence Industrial Research Institute, the market size of biopharmaceutical industry in China will grow from approximately RMB387.0 billion in 2020 to approximately RMB658.1 billion in 2025; while the global biopharmaceutical market will grow from approximately US$1.89 trillion in 2021 to approximately US$2.34 trillion in 2025.

Raw materials of power battery

According to a survey by CITIC Securities Company Limited ("**CITIC Securities**"), from January 2022 to May 2022, the total sales volume of the passenger vehicle industry in China was approximately 8.13 million units, representing a year-on-year decrease of approximately 3.5%. Starting from May 2022, the resumption of work and production was accelerated, and the year-on-year decrease in wholesale sales narrowed to approximately 1.4%, while a clear contrast to this is the sales of new energy vehicles. From January 2022 to May 2022, the total sales volume of new energy passenger vehicles in China reached approximately 1.908 million units, representing a year-on-year increase of approximately 115%, of which the percentage of the sales volume of new energy passenger vehicles to the total sales volume of the entire passenger vehicle industry was approximately 24.7%, 29.0% and 26.3% in March, April and May, respectively. CITIC Securities predicts that the sales volume of new energy passenger vehicles will reach approximately 5.7 million units in 2022, representing a year-on-year increase of approximately 71.5%, and estimates that the sales volume of new energy passenger vehicles will reach approximately 8.0 million units in 2023, representing a year-on-year increase of approximately 40%.

There are mainly four types of raw materials for automotive power batteries, namely positive electrode materials, negative electrode materials, separators and electrolyte. Among them, the positive electrode materials account for nearly one-third, the highest proportion, of the battery cost. The cost of positive electrode materials is mainly composed of lithium carbonate and various corresponding precursor materials (including lithium iron phosphate, ternary materials of nickel, cobalt, and manganese). The main constituent materials of electrolyte include solvents, lithium salts and various additives. According to data released by the Innovation Alliance of China Automotive Power Battery Industry (中國汽車動力電池產業創新聯盟) in April 2022, compared with the beginning of last year, the average price of the popular positive electrode materials for ternary lithium battery increased by approximately 108.9%, the average price of the positive electrode materials for lithium iron phosphate battery increased by approximately 182.5%, the average price of the electrolyte for ternary lithium battery increased by approximately 146.2%, and the average price of the electrolyte for lithium iron phosphate battery increased by approximately 190.2%.

According to a report by Sina Finance in June 2022, the global penetration rate of new energy vehicles is expected to continue to rise to approximately 20% in 2025, and correspondingly, the demand for power batteries will continue to see a strong growth. It is estimated that by 2025, the global demand for power batteries will exceed 1,200 gigawatt hours ("**GWh**"), and taking into account the small batteries and energy storage batteries, the total shipment will exceed 1,600GWh. S&E Research Co., Ltd. predicts that by 2023, the global shortfall for power batteries will be about 18%; and by 2025, the shortfall will expand to about 40%.

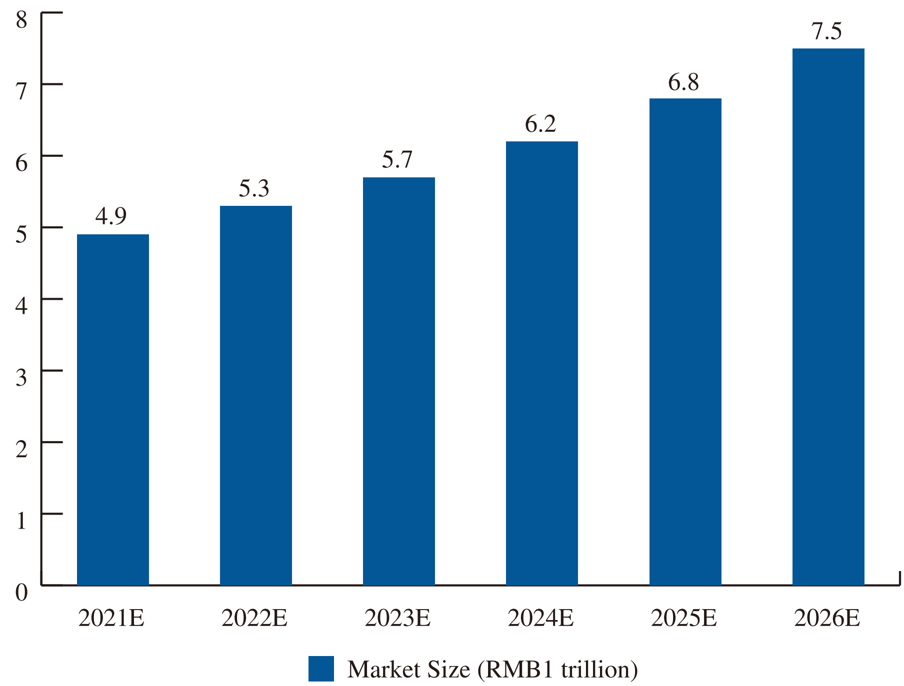
The continuous and rapid growth of new energy vehicles worldwide will continuously challenge the limited supply capacity of the industry of raw materials of power battery, and the unbalanced supply and demand relationship and the project cycles of various raw materials that do not match the demand will further stimulate the investment and construction of the raw material industry, while driving the rapid technological update and iteration of power battery.

New chemical materials

As the most important industry for the research and development and production of new synthetic materials, the chemical industry has many characteristics such as product diversification, technological timeliness and innovation leadership. The chemical industry comprises a great number of sub-industries, which continuously provide various production and living elements for social progress, economic development and improvement of human life in various areas, especially the various new materials with environmental protection effects. The 14th Five-Year Development Guide for New Chemical Materials Industry (《化工新材料產業"十四五"發展指南》) put forward the development target of the new material industry in China: during the "14th Five-Year Plan" period, the revenue and fixed asset investment of the new chemical materials industry will maintain a rapid growth, and strive to achieve high-end and differentiated development by 2025, with the development mode changed significantly, and the quality of economic operation significantly improved.

Starting from 2021, under the continuous influence of the Double Carbon Commitment, the expansion of production capacities in the chemical industry has been accelerated, bringing about a differentiated expansion cycle. According to data from China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會), the global market size for new chemical materials reached approximately US$370 billion in 2019, and is expected to reach approximately US$480 billion in 2025; the domestic output value of new chemical materials in 2019 was about RMB600 billion, while the total consumption scale was about RMB900 billion (with imports amounting to approximately RMB300 billion), and the production and consumption volume amounted to about 24.64 million tons and 34.88 million tons, respectively. The self-sufficiency rates are still relatively low in many fields such as high-end polyolefins, engineering plastics, functional film materials, high-performance fibers and electronic chemicals. With the accelerated pace of domestic industrial upgrading, the demand for new chemical materials will continue to grow. It is expected that the total consumption volume will reach approximately 57.17 million tons by 2025, with a compound annual growth rate (CAGR) of approximately 8.6% during the 14th Five-Year Plan period. As forecast by the Zero Power Intelligence Industrial Research Institute, the market size of the new chemical materials industry in China will grow from approximately RMB4.9 trillion in 2021 to approximately RMB7.5 trillion in 2026.

Forecast on the Size of the New Chemical Materials Market in China in 2021–2026



Source of data: Zero Power Intelligence Industrial Research Institute

Electronic chemicals

Electronic chemicals, also known as electronic chemical materials, generally refer to the special chemicals and chemical materials used in the electronic industry, including various chemicals and materials used in the production and packaging of electronic components, printed circuit boards, integrated circuits, printed wire boards, and industrial and consumer machines. Electronic chemical is a field integrating multiple disciplines of chemistry, chemical engineering, materials science, and electronic engineering.

Wet electronic chemicals are various electronic chemical materials used in microelectronics and optoelectronic wet processes (mainly including wet etching, cleaning, development and interconnection, etc.). Wet electronic chemicals can be divided into general chemicals (also known as ultra-clean and high-purity reagents) and functional chemicals based on their uses, such as electronic-grade sulfuric acid, hydrogen peroxide, ammonia water and ammonium fluoride.

According to the data from China Electronic Materials Industry Association, in 2021, the total consumption volume of wet electronic chemicals worldwide reached approximately 4.583 million tons, of which the demand for wet electronic chemicals in the integrated circuit field reached approximately 2.09 million tons, and the demand for wet electronic chemicals in the new display field reached approximately 1.672 million tons; in the future, the main driving forces for the growth of global demand for wet chemicals will be the completion and commissioning of multiple wafer factories and the development of the organic light emitting diode (OLED) panel industry. It is expected that by 2025, global demand for wet chemicals in the integrated circuit field will increase to approximately 3.13 million tons, the demand for wet chemicals for display panels will increase to approximately 2.44 million tons, and the total demand for wet electronic chemicals will reach approximately 6.972 million tons.

Since the commencement of armed conflict between Russia and Ukraine on 24 February 2022, the oil and gas supply in the international market has been severely impacted, and the world has once again seen the importance of non-traditional energy and its related industries for energy security, with the solar energy and photovoltaic industries being important components of the new energy industry. Therefore, all countries have actively introduced relevant policies to promote the development of photovoltaic industry. China has intensively issued favorable policies for new energy such as the 14th Five-Year Plan for the Development of Renewable Energy (《"十四五"可再生能源發展規劃》), with an aim to comprehensively guarantee the completion of new energy installation targets in China in terms of demand, consumption, approval, supply chain and finance. In May 2022, the REPowerEU plan was launched in Europe, proposing to bring the installed capacity of photovoltaics to approximately 320 gigawatt ("**GW**") by 2025 and approximately 600GW by 2030; and the photovoltaic demand in Europe will increase beyond expectations under encouraging policies. The Biden administration of the United States announced an exemption from tariffs on photovoltaic modules from four Southeast Asian countries for 24 months, and the reduction of land cost for wind and solar projects by approximately 50%. As such, in the next two years, it is expected that the installation of solar photovoltaic will increase significantly in the United States and the photovoltaics market industry worldwide will usher in a stage of comprehensive and rapid development.

Many countries have launched a number of policies to vigorously support the construction of the solar photovoltaic industry; in the next ten years, greater efforts will be exerted on the clean and low-carbon transformation of the global energy structure. High-purity polysilicon is the basic raw material for the electronics industry and the solar photovoltaic industry. In the next 50 years, it is unlikely that there will be other materials that can replace silicon and become the main raw material for the electronics and photovoltaic industries.

EXPANSION AND ADDITION OF PRODUCTION CAPACITY

Nantong Manufacturing Base Expansion Project

During the Reporting Period, the Group's expansion project of Morimatsu Heavy Industry located in Rugao Port, Nantong City, Jiangsu Province, with a gross floor area of approximately 38,000 square meters commenced operation. The expansion project mainly included a new workshop for processing heavy-duty traditional pressure equipment, a new workshop for assembling heavy-duty traditional pressure equipment and two new workshops for assembling modular pressure equipment. The commencement of operation of the Group's Nantong Base expansion project will increase the existing production capacity by 20% to 25%.

Changshu Manufacturing Base Project

During the Reporting Period, the Group's high-end equipment manufacturing base project of Morimatsu (Suzhou) LifeSciences Company Limited ("**Morimatsu LifeSciences**") located in Changshu, Suzhou City, Jiangsu Province was initiated, the first phase of which has an area of approximately 130,000 square meters, and is expected to be delivered and put into operation in the fourth quarter of 2023, achieving an estimated annual sales of RMB2 billion. The project, when put into operation, will be mainly used to provide high-end process equipment and advanced complete sets of equipment for the biopharmaceutical industry, wet electronic chemical industry, daily chemical industry and other precision industries with high requirements on cleanliness.

Malaysia Manufacturing Base

During the Reporting Period, Morimatsu Dialog (Malaysia) Sdn. Bhd., a joint venture of the Group located in Pengerang, Malaysia, was developing steadily as planned and has now started to accept new orders. The Group plans to further expand the construction of the joint venture in Malaysia as an overseas extension of the Group's overall production capacity, so as to extend its reach to the Southeast Asian, Middle East and North American markets more effectively, and serve the industries/fields of raw materials of power battery, energy chemicals as well as pharmaceutical and biopharmaceuticals in such regions.

FINANCIAL DATA

On 28 February 2022, the Group completed the acquisition of entire issued shares of common stock of Morimatsu Houston Corporation ("**Morimatsu Houston**"), the acquisition was regarded as a business combination under common control by the Group in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. The financial information of the Group for the year ended 31 December 2021 and for the six months ended 30 June 2021 was restated accordingly to comply with the relevant accounting standards.

Revenue

The production capacity expansion project of the Group based in Nantong was delivered and put into operation, which expanded the existing production capacity and ensured the on-time performance of the Group's sales contracts during the pandemic lockdown measures in Shanghai. The revenue of the Group increased by approximately 59.8% from approximately RMB1,855,673,000 for the six months ended 30 June 2021 to approximately RMB2,964,865,000 for the six months ended 30 June 2022. The increase was mainly attributable to 1) the increased orders from the pharmaceutical industry and the delivery of large-scale modular factories; and 2) the increased orders from the raw materials of power battery industry, of which the orders for the equipment used to manufacture electrolytes, additives and ternary positive and negative materials increased significantly.

	Six months ended 30 June					Year-on-year
	2022		2021		Increase	change
Revenue	***RMB'000*** **(unaudited)**	***Proportion***	*RMB'000* (unaudited) (restated)	*Proportion*	*RMB'000*	
Electronic chemical	**272,742**	**9.2%**	89,508	4.8%	183,234	204.7%
Chemical	**860,220**	**29.0%**	864,605	46.6%	-4,385	-0.5%
Daily chemical	**63,412**	**2.1%**	64,928	3.5%	-1,516	-2.3%
Raw materials of power battery*	**374,343**	**12.6%**	31,995	1.7%	342,348	1,070.0%
Oil and gas	**77,059**	**2.6%**	181,616	9.8%	-104,557	-57.6%
Pharmaceutical and biopharmaceutical	**1,131,757**	**38.2%**	551,020	29.7%	580,737	105.4%
Others	**185,332**	**6.3%**	72,001	3.9%	113,331	157.4%
Total	**2,964,865**	**100.0%**	1,855,673	100.0%	1,109,192	59.8%

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

Cost of Sales

The cost of sales of the Group increased by approximately 58.9% from approximately RMB1,369,770,000 for the six months ended 30 June 2021 to approximately RMB2,176,441,000 for the six months ended 30 June 2022. The increase in cost of sales was basically in line with that of the Group's revenue.

	Six months ended 30 June					Year-on-year
	2022		2021		Increase	change
Cost of sales	***RMB'000*** **(unaudited)**	***Proportion***	*RMB'000* (unaudited) (restated)	*Proportion*	*RMB'000*	
Raw materials and consumables	**1,446,587**	**66.5%**	881,310	64.3%	565,277	64.1%
Direct labour cost	**231,631**	**10.6%**	194,947	14.2%	36,684	18.8%
Outsourcing fees	**179,804**	**8.3%**	92,388	6.7%	87,416	94.6%
Installation and repair cost	**193,694**	**8.9%**	79,075	5.8%	114,619	144.9%
Depreciation	**30,550**	**1.4%**	29,978	2.2%	572	1.9%
Impairment losses on assets	**-268**	**0.0%**	6,703	0.5%	-6,971	-104.0%
Others (indirect labour cost + design fees)	**94,443**	**4.3%**	85,369	6.3%	9,074	10.6%
Total	**2,176,441**	**100.0%**	1,369,770	100.0%	806,671	58.9%

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by approximately 62.3% from approximately RMB485,903,000 for the six months ended 30 June 2021 to approximately RMB788,424,000 for the six months ended 30 June 2022, which was basically in line with that of the Group's revenue. The gross profit margin for the six months ended 30 June 2022 remained relatively stable as compared with the corresponding period in 2021.

Selling and Marketing Expenses

The selling and marketing expenses of the Group increased by approximately RMB51,331,000 from approximately RMB44,106,000 for the six months ended 30 June 2021 to approximately RMB95,437,000 for the six months ended 30 June 2022. For the six months ended 30 June 2022, the selling and marketing expenses recorded a year-on-year increase of approximately 116.4%, which was mainly due to the increase in commission fee of approximately RMB42,780,000 incurred by the Group to expand overseas markets and new customers.

General and Administrative Expenses

The general and administrative expenses of the Group increased by approximately RMB43,607,000 from approximately RMB184,874,000 for the six months ended 30 June 2021 to approximately RMB228,481,000 for the six months ended 30 June 2022. For the six months ended 30 June 2022, the general and administrative expenses recorded a year-on-year increase of approximately 23.6%, which was mainly due to 1) no listing expenses were incurred during the Reporting Period after the successful listing of the Company on 28 June 2021; and 2) the continuous implementation of a series of cost reduction and efficiency enhancement measures to reduce general and administrative expenses.

Research and Development Expenses

The research and development expenses of the Group increased by approximately 87.9% from approximately RMB77,436,000 for the six months ended 30 June 2021 to approximately RMB145,505,000 for the six months ended 30 June 2022. For the six months ended 30 June 2022, the research and development expenses accounted for approximately 4.9% of the Group's revenue, representing an increase of approximately 0.7% from approximately 4.2% for the six months ended 30 June 2021, which was mainly because 1) the Group increased the investment in the research and development of new fields and new technologies, and continued to carry out scientific research projects, such as school-enterprise cooperation; and 2) the number of research and development personnel increased from 356 as at 30 June 2021 to 487 as at 30 June 2022, which led to the increase in research and development labor cost of approximately RMB20,567,000 for the six months ended 30 June 2022 as compared to the corresponding period in 2021.

Finance Costs

The finance costs of the Group decreased by approximately 31.3% from approximately RMB11,505,000 for the six months ended 30 June 2021 to approximately RMB7,900,000 for the six months ended 30 June 2022, which was due to the repayment of part of the bank borrowings by the Group in the second half of 2021, resulting in a corresponding decrease in interest expenses.

Net Profit for the Period

The net profit of the Group increased by approximately 111.8% from approximately RMB142,843,000 for the six months ended 30 June 2021 to approximately RMB302,536,000 for the six months ended 30 June 2022, and the increase in net profit for the Reporting Period was mainly due to 1) the expansion of business scale and the increase in production capacity, resulting in a significant increase in revenue; 2) the continuous improvement of operating efficiency; 3) the purchase of short-term bank wealth management products to improve the yield of idle funds on the premise of ensuring sufficiency of daily working capital; and 4) the increase in export projects, some of which, denominated in Euros and involving a large amount of advance receipts, generated foreign exchange gains when recognizing revenue upon completion, resulting in an increase in the exchange gains as compared with the corresponding period in 2021, partially offset by the following: 1) the increase of approximately RMB42,780,000 in the commission fee for developing overseas markets and new customers; 2) the increase of approximately RMB35,650,000 in the equity-settled share-based payment expenses as compared with the corresponding period in 2021; and 3) the continued investment in the manufacturing equipment, digital operation and maintenance platform for the raw materials of power battery, and the active implementation of scientific research projects such as school-enterprise cooperation, resulting in an increase of approximately RMB68,069,000 in the research and development expenses as compared with the corresponding period in 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 six months ended 30 June 2022 amounted to approximately RMB400,647,000, representing an increase of approximately RMB176,393,000 from the EBITDA of RMB224,254,000 for the six months ended 30 June 2021. Excluding the listing expenses and share-based payments, adjusted EBITDA for the six months ended 30 June 2022 amounted to approximately RMB470,072,000, representing an increase of approximately RMB192,197,000, or approximately 69.2%, as compared with that of approximately RMB277,875,000 for the six months ended 30 June 2021.

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
Net profit for the period	**302,536**	142,843
Add: Income tax expenses	**38,692**	24,743
Interest expenses	**7,900**	11,505
Depreciation	**43,672**	38,889
Amortisation	**7,847**	6,274
EBITDA for the period	**400,647**	224,254
Add: Share-based payments	**69,425**	33,775
Listing expenses	**—**	19,846
Adjusted EBITDA for the period	**470,072**	277,875

Trade and Other Receivables

The Group's trade and other receivables increased by approximately 38.2% from approximately RMB921,456,000 as at 31 December 2021 to approximately RMB1,273,602,000 as at 30 June 2022, which was mainly due to 1) the increase in trade receivables as a result of the increase in revenue; 2) the increased balance of bills receivable due to the use of bank acceptance bills by certain customers to pay for sizable orders; and 3) an increase in the balance of prepayments resulting from the purchase of raw materials for more orders on hand.

Trade and Other Payables

The Group's trade and other payables increased by approximately 8.3% from approximately RMB1,094,663,000 as at 31 December 2021 to approximately RMB1,185,580,000 as at 30 June 2022, which was mainly due to the significant increase in trade payables resulting from the purchase of raw materials for the greatly increased orders on hand.

Contract Liabilities

The contract liabilities of the Group increased by approximately 21.2% from approximately RMB2,171,901,000 as at 31 December 2021 to approximately RMB2,633,074,000 as at 30 June 2022, mainly due to the significant increase in the number of new sales orders, and the high proportion of advance receipts for certain sizable orders.

Liquidity and Capital Resources

The balance of cash and cash equivalents of the Group decreased by approximately RMB65,330,000 from approximately RMB1,548,875,000 as at 31 December 2021 to approximately RMB1,483,545,000 as at 30 June 2022, representing a decrease of approximately 4.2%. On the premise of ensuring liquidity, the Group purchased short-term wealth management products issued by China Zheshang Bank Co., Ltd., Bank of China Limited and China CITIC Bank Corporation Limited, etc., with idle funds. The amount of wealth management products that did not expire as at 30 June 2022 was approximately RMB217,620,000.

The cash and cash equivalents held by the Group are mainly in currencies of RMB, USD, EUR, HKD and JPY. In order to hedge against 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.

The liquidity of the Group mainly includes 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.

As at 30 June 2022, the total bank credit facilities of the Group are RMB550,000,000, US$110,000,000, SEK300,000,000, HK$93,000,000 and JPY19,400,000,000 (equivalent to approximately RMB2,517,676,000). The utilized bank credit facilities amounted to approximately RMB1,133,727,000, US$63,449,000, HK$93,000,000, JPY127,123,000 and EUR7,994,000 (equivalent to approximately RMB1,702,696,000), while the unused bank credit facilities amounted to approximately RMB814,980,000.

Borrowings and Gearing Ratio

The aggregated borrowings of the Group increased from approximately RMB370,002,000 as at 31 December 2021 to approximately RMB427,039,000 as at 30 June 2022, mainly due to the increase in bank borrowings to pay part of the amount required for engineering construction.

All borrowings were fixed-rate borrowings as at 30 June 2022, among which, RMB denominated borrowings amounted to approximately RMB347,506,000, which will be due within 1 year; and HKD denominated borrowings amounted to approximately RMB79,533,000, which will be due within 3 years.

Gearing ratio is calculated using interest-bearing borrowings divided by total equity. The gearing ratio of the Group decreased from approximately 18.4% as at 31 December 2021 to approximately 17.9% as at 30 June 2022, mainly due to the increase in reserve resulting from the Group's profit-making condition during the Reporting Period.

Charges on the Group's Assets

As at 30 June 2022, there were no charges on the Group's assets.

Contingent Liabilities

As at 30 June 2022, the Group did not have any significant contingent liabilities.

Issue of Equity Securities

During the six months ended 30 June 2022, the Company did not issue any equity securities (including securities convertible into equity securities) for cash.

Significant Investments, Acquisitions and Disposals

On 17 January 2022, the Group set up a new subsidiary, Shanghai Morimatsu Biotechnology Co. Ltd. ("**Morimatsu Biotechnology**"), in the PRC, the primary activities of which are the research and development of biological technology and the manufacturing and sales of related special equipment. As at 30 June 2022, the registered capital of Morimatsu Biotechnology was RMB50 million, and the Company indirectly held 72.25% of the equity interest of and the control over Morimatsu Biotechnology.

In order to promote the internationalization strategy and expand the North American market, on 28 February 2022, the Group entered into a share acquisition agreement with Morimatsu Holdings Co., Ltd. (formerly known as Morimatsu Industry Co., Ltd.) to acquire entire issued shares of common stock of Morimatsu Houston, for a total consideration of US$1,295,000. For further details, please refer to the Company's announcement dated 28 February 2022.

On 24 May 2022, the Group established a new subsidiary, Shanghai Mori-Biounion Technology Co., Ltd. ("**Mori-Biounion Technology**"), in the PRC, the principal activities of which are biotechnology consulting and services, as well as the production and sales of related products. As at 30 June 2022, the registered capital of Mori-Biounion Technology was RMB41.3 million, and the Company indirectly held 59.32% of the equity interest of and the control over Mori-Biounion Technology.

Save as disclosed in this announcement, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the Reporting Period. Save as disclosed in this announcement, the Group had no future plan for material investments or capital assets as at 30 June 2022.

Important Events After the Reporting Period

On 11 July 2022, Morimatsu Heavy Industry, a subsidiary of the Group, and three other investors established Mori-Union Microchannel Industrial Equipment Co., Ltd. (上海森聯微通工業裝備有限公司) in the PRC, which is mainly engaged in the research and development of microchannel reactors. The registered capital of the company was RMB10 million, and the Company indirectly held 36% of its equity interest.

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 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 of the Group during the Interim Period have been reviewed by the Audit Committee.

DIVIDEND

The Directors did not recommend the payment of interim dividend for the six months ended 30 June 2022.

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, 18 August 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.

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.