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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 2022

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2022	2021
	RMB	*RMB*
		(Restated Note 1)
Revenue	**6,486,277,000**	4,286,222,000
Gross profit	**1,793,386,000**	1,183,583,000
Gross profit margin	**27.6%**	27.6%
Net profit	**666,182,000**	381,838,000
Net profit margin	**10.3%**	8.9%
New orders amounts	**9,355,794,000**	6,654,149,000
Adjusted EBITDA Note 2	**1,030,069,000**	653,554,000
Basic earnings per Share	**0.64**	0.43
Diluted earnings per Share	**0.58**	0.38

	As at 31 December	
	2022	2021
	RMB	*RMB*
The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	**8,621,816,000**	5,720,026,000

Note 1: On 28 February 2022, the Group completed the acquisition of entire issued shares of common stock of Morimatsu Houston Corporation, and 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 was restated accordingly to comply with the relevant accounting standards.

Note 2: Adjusted EBITDA represents the profit before taxation, adjusted for the exclusion of non-cash share-based compensation, finance costs, listing expenses, depreciation and amortization.

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 2022 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**Year ended 31 December** **2022** ***RMB'000***	2021 *RMB'000* (Restated)
Revenue	*2*	**6,486,277**	4,286,222
Cost of sales		**(4,692,891)**	(3,102,639)
Gross profit		**1,793,386**	1,183,583
Other (loss)/income	*3*	**(701)**	5,876
Selling and marketing expenses		**(184,460)**	(106,559)
General and administrative expenses		**(510,448)**	(381,500)
Research and development expenses		**(316,084)**	(226,628)
Impairment loss on trade receivables and contract assets		**(100)**	(2,803)
Profit from operations		**781,593**	471,969
Finance costs	*4(a)*	**(15,951)**	(22,794)
Shares of results of associates		**(2)**	—
Shares of results of joint venture		**(4,723)**	(32)
Profit before taxation	*4*	**760,917**	449,143
Income tax	*5(a)*	**(94,735)**	(67,305)
Profit for the year		**666,182**	381,838
Attributable to:			
Equity shareholders of the Company		**669,266**	381,838
Non-controlling interests		**(3,084)**	—
Profit for the year		**666,182**	381,838
Earnings per share	*6*		
Basic (RMB)		**0.64**	0.43
Diluted (RMB)		**0.58**	0.38

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**666,182**	381,838
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	**615**	(5,625)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	**(1,348)**	(4,578)
Other comprehensive income for the year	**(733)**	(10,203)
Total comprehensive income for the year	**665,449**	371,635
Attributable to:		
Equity shareholders of the Company	**668,533**	371,635
Non-controlling interests	**(3,084)**	—
Total comprehensive income for the year	**665,449**	371,635

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2022 RMB'000	2021 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment		**1,609,565**	1,227,021
Right-of-use assets		**198,888**	106,758
Intangible assets		**31,079**	33,702
Interests in associates		**20,016**	—
Interest in joint venture		**6,155**	10,878
Financial assets measured at fair value through profit or loss ("**FVPL**")	*11*	**10,000**	—
Deferred tax assets		**7,120**	—
Other non-current assets	*10*	**243,212**	15,975
		2,126,035	1,394,334
Current assets			
Inventories		**2,213,728**	1,229,633
Contract assets	*9(a)*	**830,927**	609,515
Trade and other receivables	*7*	**1,165,785**	921,456
Financial assets measured at fair value through profit or loss ("**FVPL**")	*11*	**253,748**	695
Cash and cash equivalents		**1,370,359**	1,548,875
		5,834,547	4,310,174
Current liabilities			
Trade and other payables	*8*	**1,633,543**	1,094,663
Contract liabilities	*9(b)*	**2,890,048**	2,171,901
Financial liabilities measured at fair value through profit or loss ("**FVPL**")	*11*	**1,240**	—
Interest-bearing borrowings		**254,599**	370,002
Lease liabilities		**6,059**	2,528
Current taxation		**68,467**	33,881
Provisions		**25,450**	17,362
		4,879,406	3,690,337
Net current assets		**955,141**	619,837
Total assets less current liabilities		**3,081,176**	2,014,171

	Note	As at 31 December 2022 RMB'000	2021 RMB'000 (Restated)
Non-current liabilities			
Interest-bearing borrowings		**189,634**	—
Lease liabilities		**17,104**	1,883
Deferred tax liabilities		**9,358**	4,126
Deferred income		**42,434**	353
		258,530	6,362
Net assets		**2,822,646**	2,007,809
Capital and reserves	*12*		
Share capital		**643,657**	571,769
Reserves		**2,172,073**	1,436,040
Total equity attributable to equity shareholders of the Company		**2,815,730**	2,007,809
Non-controlling interests		**6,916**	—
Total equity		**2,822,646**	2,007,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. The 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**").

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(d) 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 2022 comprise the Group and the Group's interest in associates and 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 the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— Investment in unlisted equity securities;

— Monetary fund; and

— Forward exchange contracts.

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 2022 and 2021 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 2021 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 Reporting Period in due course.

The Company's auditor has reported on the financial statements of the Group for the Reporting Period. 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) Merger accounting and restatements

On 28 February 2022, Pharmadule Morimatsu AB ("**Pharmadule Sweden**"), 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 ("**Morimatsu Houston**") from Morimatsu Holdings Co., Ltd. ("**Morimatsu Holdings**"), the parent company of the Company, for a consideration of United States dollars ("**USD**" or "**US$**") 1,295,000.

Prior to and after the reorganisation and the acquisition, the Group and Morimatsu Houston were all under the common control of Morimatsu Holdings. The control is not transitory and, consequently, there was a continuation of risks and benefits to Morimatsu Holdings. 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 have been consolidated using the existing book values from the perspective of Morimatsu Holdings.

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.

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

(d) 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 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

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 AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the production and sales of various pressure equipment. Further details regarding the Group's principal activities are disclosed in Note 2(b).

(i) Disaggregation of revenue

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— traditional pressure equipment	**2,662,892**	2,221,045
— reactor	**1,399,610**	1,036,177
— heat exchanger	**567,805**	400,142
— tank	**347,012**	516,792
— tower	**348,465**	267,934
— modular pressure equipment	**3,648,656**	1,925,440
— others*	**32,274**	27,977
Sales of products	**6,343,822**	4,174,462
— Pressure equipment design, validation, and maintenance service	**142,455**	111,760
Service	**142,455**	111,760
Revenue of operations	**6,486,277**	4,286,222

* 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(a)(iii).

The Group's customer base is diversified and includes one customer only with whom transactions have exceeded 10% of the Group's revenues of the Reporting Period (2021: one). Revenues from this customer during the Reporting Period are set out below:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Customer A	*	535,712
Customer B	**731,994**	*

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

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

As at 31 December 2022, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB8,621,816,000 (as at 31 December 2021: RMB5,720,026,000). 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.

(iii) 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.

	Revenues from external customers Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Mainland China	**3,649,610**	3,548,444
North America	**515,899**	117,248
Asia (excluding mainland China)	**1,007,267**	338,453
Europe	**455,127**	215,157
Africa	**767,103**	35,961
Others *(Note)*	**91,271**	30,959
	6,486,277	4,286,222

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

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial statement 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.

3 OTHER (LOSS)/INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Government grants *(i)*	**3,306**	6,685
Interest income	**15,259**	2,123
Net realised gains on monetary fund	**8,627**	3,299
Net realised (losses)/gains on forward exchange contracts	**(23,467)**	693
Net foreign exchange losses	**(6,414)**	(16,762)
Changes in fair value of financial assets and liabilities	**(292)**	695
Net loss on disposal of property, plant and equipment	**(1,103)**	(610)
Others	**3,383**	9,753
	(701)	5,876

(i) Government grants mainly includes (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	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
(a) Finance costs:		
Interest on interest-bearing borrowings	**15,413**	22,683
Interest on lease liabilities	**538**	111
	15,951	22,794
(b) Staff costs:		
Salaries, wages and other benefits	**857,619**	654,747
Equity-settled share-based payment expenses	**139,387**	67,551
Contributions to defined contribution retirement plans *(i)*	**88,510**	66,283
	1,085,516	788,581

(i) Employees of the Group's subsidiaries in the People's Republic of China (the "**PRC**" or "**China**") 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	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
(c) Other items:		
Amortisation of intangible assets	**15,371**	13,669
Depreciation charge		
— owned property, plant and equipment	**89,668**	74,376
— right-of-use assets	**8,775**	4,967
Auditor's remuneration		
— audit services	**3,890**	3,480
— tax services	**—**	390
— other services	**—**	283
Research and development costs *(i)*	**316,084**	226,628
Increase in provisions	**14,487**	8,107
Cost of inventories *(ii)*	**4,692,891**	3,102,476
Expense relating to short-term leases	**44,811**	51,254

(i) Research and development costs included staff costs of RMB155,469,000 (2021: RMB119,763,000), depreciation and amortisation expenses of RMB10,296,000 (2021: RMB7,729,000), 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 RMB538,824, 000 (2021: RMB461,514,000), depreciation and amortisation expenses of RMB61,968,000 (2021: RMB57,291,000), 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	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Current tax:		
Provision for the year	**96,623**	64,706
Deferred tax:		
Origination and reversal of temporary differences	**(1,888)**	2,599
Actual tax expense	**94,735**	67,305

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

		Year ended 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
			(restated)
Profit before taxation		**760,917**	449,143
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	*(i)(ii)*	**118,037**	83,509
Additional deduction for qualified research and development expenses	*(iii)*	**(29,275)**	(20,905)
Under-provision in respect of prior year		**249**	338
Non-deductible expenses		**10,565**	7,162
Tax effect of unrecognised loss		**(8,654)**	(3,206)
Tax effect of unrecognised temporary difference		**3,813**	407
Actual tax expense		**94,735**	67,305

(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 use the losses arising from the previous years and did not have income subject to Hong Kong Profits Tax during 2022 and 2021 respectively.

Pursuant to the income tax rules and regulations of Sweden, Pharmadule Sweden was subject to the Sweden Corporate Tax at a rate of 20.6% in 2022 and 2021.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc and Morimatsu Houston were subject to the United States Corporate Tax at a rate of 21% in 2022 and 2021, which represents federal income tax at a rate determined by income ranges.

Pursuant to the income tax rules and regulations of the Republic of India ("**India**"), Pharmadule Engineering India Private Limited ("**Pharmadule India**") was subject to the Indian Corporate Tax at a rate of 25.17% and 25% during 2022 and 2021. No provision for Indian Corporate Tax was made for Pharmadule India 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 liable to the Japan Corporate Tax at a rate of 33.58% in 2022 and 2021.

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. ("**Morimatsu Italy**") was liable to the Italy Corporate Tax at a rate of 24% in 2022 and 2021. No provision for Italian Corporate Tax was made for Morimatsu Italy as the company did not have income subject to Italian Corporate Tax during the reporting period.

Pursuant to the income tax rules and regulations of Mexico, Permanent Establishment in Mexico of Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (established on 27 April 2022) was liable to the Mexico Corporate Tax at a rate of 30% in 2022. No provision for Mexican Corporate Tax was made for Permanent Establishment in Mexico of Morimatsu Pharmaceutical Equipment as the company did not have income subject to Mexican 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%	2022 and 2021
Morimatsu Pharmaceutical Equipment (上海森松製藥設備工程有限公司)	15%	2022 and 2021

(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 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 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 RMB669,266,000 (2021(restated): RMB381,838,000) and the weighted average of 1,050,774,000 ordinary shares of the Company ("**Shares**") (2021: 895,034,000 Shares after adjusting for the bonus issue) in issue during the year, calculated as follows:

Weighted average number of Shares

	2022	2021
Issued Shares at 1 January	**1,037,500,000**	200,000
Effect of bonus issue *(note (i) below)*	**—**	749,800,000
Effect of Shares issued *(note (ii) below)*	**—**	145,034,000
Effect of vested shares options exercisable for no more than little consideration *(note (iii) below)*	**13,274,000**	—
Weighted average number of Shares at 31 December	**1,050,774,000**	895,034,000

note (i): The number of Shares outstanding before the bonus issue completed on 31 May 2021 was adjusted for the proportionate increase in the number of 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): From listing to the end of 2021, a total of 287,500,000 Shares were issued at Hong Kong Dollar ("**HKD**" or "**HK$**") 2.48 per share, raising HK$713,000,000 in total.

note (iii): The number of Shares outstanding were vested and exercisable from 28 June 2022 for no more than little consideration, as if the Shares vested and exercised from the vesting date.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to the Shareholders of RMB669,266,000 (2021(restated): RMB381,838,000) and the weighted average number of Shares of 1,156,099,000 shares (2021: 1,004,396,000 shares after adjusting for the bonus issue), calculated as follows:

Weighted average number of Shares (diluted)

	2022	2021
Weighted average number of Shares at 31 December	**1,050,774,000**	895,034,000
Effect of deemed issue of Shares under the Company's Pre-IPO Share Option Scheme and RSU Scheme	**105,325,000**	109,362,000
Weighted average number of Shares (diluted) at 31 December	**1,156,099,000**	1,004,396,000

7 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Bills receivable *(Note (a)(i))*	**156,247**	83,398
Trade debtors net of loss allowance	**682,065**	609,562
Other debtors	**61,048**	23,285
Financial assets measured at amortised cost	**899,360**	716,245
Prepayments	**266,425**	205,211
	1,165,785	921,456

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(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 2022, the Group did not have bill receivable (as at 31 December 2021: RMB5,205,000) pledged.

(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 2022, bills endorsed and derecognised, but yet reached maturity amounted to RMB507,021,000 (as at 31 December 2021: RMB232,865,000). 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 RMB91,407,000 endorsed by the Group to its suppliers as at 31 December 2022 (as at 31 December 2021: RMB47,797,000) 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 of 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	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Within 3 months	**389,805**	405,541
More than 3 months but less than 1 year	**231,885**	144,283
More than 1 year but less than 2 years	**55,467**	57,482
More than 2 years	**4,908**	2,256
	682,065	609,562

Trade debtors and bills receivable are mainly due within 30–120 days from the date of invoice.

8 TRADE AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Bills payable	**21,577**	46,319
Trade payables	**1,233,544**	718,425
Other payables and accruals	**378,422**	329,919
Financial liabilities measured at amortised cost	**1,633,543**	1,094,663

As of 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	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Within 3 months	**1,005,728**	561,591
More than 3 months but less than 6 months	**181,516**	99,990
More than 6 months but less than 12 months	**36,670**	40,214
More than 1 year but less than 2 years	**5,848**	12,611
More than 2 years	**3,782**	4,019
	1,233,544	718,425

No bills payable (as at 31 December 2021: RMB11,655,000) was guaranteed.

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

	As at 31 December	
Contract assets	**2022**	2021
	RMB'000	*RMB'000*
		(restated)
Arising from revenue recognised over time	**830,927**	609,515
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" *(Note 7)*	**682,065**	609,562

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 **2022** *RMB'000*	2021 *RMB'000*
Billings in advance of performance	**2,890,048**	2,171,901

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 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 and 1 January 2022	2,171,901
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	(1,864,442)
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	2,582,589
At 31 December 2022	2,890,048

10 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(restated)
Prepayments for property, plant and equipment	**241,546**	14,860
Long-term deferred expense	**1,666**	1,115
	243,212	15,975

11 FAIR VALUE MEASUREMENT

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2022	Fair value measurements as at 31 December 2022 categorised ratio		
		Level 1	**Level 2**	**Level 3**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurements				
Financial Assets				
Unlisted equity securities	**10,000**	**—**	**—**	**10,000**
Monetary fund	**253,748**	**—**	**253,748**	**—**
Financial Liabilities				
Forward exchange contracts	**(1,240)**	**—**	**(1,240)**	**—**

	Fair value at 31 December 2021	Fair value measurements as at 31 December 2021 categorised ratio		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Financial Asset				
Forward exchange contracts	695	—	695	—

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward exchange contracts in Level 2 is the estimated amount that the Group would receive or pay to transfer the contract at the end of the Reporting period, taking into account current forward price which is derived from Bank of China Limited.

Information about Level 3 fair value measurements

The unlisted equity securities are shares in Lab Direct China Limited, a company incorporated in Shanghai and engaged in provision of one-stop integrated procurement and supply services for life science industry.

Pursuant to the written resolution dated on 6 June 2022, the Group invested RMB10,000,000 to obtain 1.75% equity interest of Lab Direct China Limited. The Group categorized its investment in Lab Direct China Limited as FVPL. No dividends were received on this investment during the year (2021: nil).

As at 31 December 2022, considering the last equity financing within one year and the operating of Lab Direct China Limited without any significant change, the fair value of the unlisted equity securities could be measured by the historical cost of investment.

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2022 and 2021.

12 CAPITAL AND RESERVES

(a) Share capital

	2022		2021	
	No. of shares ('000)	***RMB'000***	*No. of shares ('000)*	*RMB'000*
Shares, issued and fully paid:				
At 1 January	**1,037,500**	**571,769**	200	173
Issue of Shares	**—**	**—**	—	—
Issuance of Shares to the Company *(i)*	**36,296**	**36,581**	—	—
Exercise of share option *(ii)*	**—**	**35,307**	—	—
Bonus issue *(iii)*	**—**	**—**	749,800	—
Issuance of Shares upon initial public offering *(iv)*	**—**	**—**	250,000	493,980
Issuance of Shares upon over-allotment *(v)*	**—**	**—**	37,500	77,616
At 31 December	**1,073,796**	**643,657**	1,037,500	571,769

In accordance with section 135 of the Hong Kong Companies Ordinance, the Shares do not have a par value.

(i) Issuance of Shares to the Company

The Company issued and repurchased 26,476,000 Shares at HK$0.6621 per share for exercise of Pre-IPO Share Option Scheme on 2 June 2022.

The Company issued and repurchased 9,819,900 Shares at HK$4.17 per share for exercise of Restricted Share Unit Scheme on 23 November 2022.

As the treasury Shares were repurchased for the purposes of equity settled share-based transactions, the cost of the treasury Shares in the amount of RMB36,581,000 is presented as treasury Shares in the consolidated balance sheet as at December 31 2022.

(ii) Exercise of share option

The option to subscribe for an aggregate of 15,412,688 Shares, which grant date fair value is RMB2.29, were exercised on and after 28 June 2022 at the exercise price of RMB1,000. RMB35,307,000 was transferred from the capital reserve to the share capital account.

(iii) Bonus issue

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

(iv) Issuance of Shares upon initial public offering

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

(v) Issuance of Shares upon over-allotment

On 20 July 2021, an aggregate of 37,500,000, representing 15% of the offer Shares initially available under the global offering (before any exercise of the over-allotment option), to cover over-allocations in the international placing, were allotted and issued by the Company at HK$2.48 per share being the offer price per share under the global offering. Net proceeds of RMB77,616,000 from such issue was recorded in share capital.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the historical financial information of foreign operations with Functional Currency other than RMB.

(c) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, a subsidiary of the Group which is domestic enterprise is required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to its respective statutory reserves until the reserves reach 50% of its respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital. The statutory reserve can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(d) Dividends

The directors consider that no dividend was declared and approved during the years ended 31 December 2022 and 2021.

(e) Capital reserve

The capital reserve comprises the following:

— Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised for business expansion or converted into Shares by the issuance of new Shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the Shares currently held by the shareholders; and

— the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognized.

(f) 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

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

BUSINESS STRATEGY

Based on the direct communication between upstream and downstream enterprises, the Group is oriented to meet the value needs of customers, and takes pre-sales technical services, including joint research and development, co-construction of laboratories and in-depth participation in project feasibility research and evaluation, as the starting point to provide customers with products with solutions as the core, and core equipment and complete sets of equipment as the carriers. In the after-sales stage, the Group mainly provides support services such as digital operation and maintenance support, device upgrading, equipment transformation, and replacement of key spare parts, which can cover the entire life cycle of specific technologies and products.

CONCERTED EFFORT TO FACE UP TO COVID-19 PANDEMIC

During the Reporting Period, under the leadership of the Board and the management, the Group actively responded to various situations caused by the 2019 novel coronavirus disease ("**COVID-19**") pandemic, including the instability of supply chains, infection of employees and reduced demand from certain downstream industries.

From late March 2022, Shanghai, the main business location of the Group, began to implement closed-loop management policies, facing which, the management of the Group took the lead and led more than 1,300 employees to live and manufacture in the manufacturing base for two and a half months. Under extremely difficult circumstances with limited contingency plans, the Group did its best to ensure the supply of living and production materials for all employees in the closed loop with the full support of the community and partners.

In the second quarter of 2022, when the Group was under closed-loop management for most of the time, it overcame various difficulties and challenges mentioned above, and successfully delivered a series of products, represented by the modular advanced biological vaccine factory exported to the Kingdom of Morocco and the core reactors for the raw materials of power battery project exported to the Republic of Indonesia, in accordance with contractual commitments, thus laying a foundation for creating a period-on-period record-high performance in 2022.

In the fourth quarter of 2022, with the adjustment of the COVID-19 prevention policy in China, most cities experienced rapid and large-scale outbreaks of COVID-19 pandemic since November, and the Group's two manufacturing bases in Shanghai and Nantong also encountered infection peaks. From December 2022 to mid-to-early January 2023, there were employees who chose to take leave or work from home every week due to the infection of COVID-19. Through the timely deployment and effective intervention of the management, operating indicators such as revenue, net profit and new orders were not affected during this period, especially in December 2022, and the overall performance during the Reporting Period had not been, and the performance expectation for 2023 will not be affected significantly.

During the Reporting Period, the Group also delivered various types of products in response to the COVID-19 pandemic to domestic and foreign customers in the pharmaceutical industry, including new vaccine factories, process modules and bioreactors for the production of vaccines and antibodies, and production equipment for the raw materials of small molecule drugs with specific effects.

After the adjustment of the COVID-19 pandemic control policy at the end of 2022, the Group is full of expectations for the improvement of the overall supply and demand relationship in the market, the growth of overseas business and the furtherance of the global strategy in 2023. The post-pandemic era will be a golden period for the Group to achieve continuous rapid growth and diversified development.

PERFORMANCE AND GROWTH IN PRINCIPAL FIELDS

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 (such as process modules) and comprehensive solutions (such as modular industrial devices) including chemical reactions, bio-reactions and polymerization reactions. The downstream industries/fields currently served by the Group include oil and gas, family care, new chemical materials, pharmaceutical (including biopharmaceutical and synthetic chemical drugs), raw materials of power battery (including metallic ores, lithium battery raw materials and intermediate chemical raw materials) and electronic chemicals (including the production of photovoltaic raw materials and high-purity chemical reagents), etc.

Set out below is the amount of new orders of the major downstream industries/fields for the Reporting Period and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts as at 31 December 2022. The rapid growth of the Group's business is mainly attributable to the industries/fields of pharmaceutical and biopharmaceutical and electronic chemicals. As at the end of the Reporting Period, the amount of new orders in these two industries/fields accounted for more than 50% of the total amount of the Group's new orders.

Downstream industry/field	**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	1,980,603	21.2%	1,492,715	17.3%
Chemicals	1,820,872	19.5%	2,102,244	24.4%
Family care *Note 1*	585,653	6.3%	267,374	3.1%
Raw materials of power battery *Note 2*	1,184,202	12.7%	1,356,583	15.7%
Oil and gas	879,059	9.4%	961,829	11.2%
Pharmaceutical and biopharmaceutical	2,751,894	29.4%	2,346,418	27.2%
Others	153,511	1.5%	94,653	1.1%
Total	9,355,794	100.0%	8,621,816	100.0%

Note 1: Previously known as daily chemical. For better business delineation, this industry has been renamed to family care. The offerings and products under this industry remain unchanged.

Note 2: Raw materials of power battery include mining and metallurgy industry.

In the field of raw materials of power battery, in addition the Group's continuous efforts in domestic and foreign metal ore smelting projects, the Group also maintained a steady performance in the production and sintering of ternary precursors and ternary cathode materials, electrolyte configuration, additives for core electrolytes (lithium difluorophosphate, lithium hexafluorophosphate, and lithium bisfluorosulfonyl imide, etc.), positive/negative electrode material binders, and NMP (N-methylpyrrolidone) solution recovery devices.

In the industry/field of pharmaceuticals and biopharmaceuticals, the Group continued to maintain the steady growth in total business volume in general, with revenue and orders mainly coming from the demand from new projects in traditional sectors such as antibodies, vaccines, recombinant proteins and other artificial blood products. Moreover, the stable demand from leading domestic and foreign contract development and manufacturing organizations (CDMOs) also contributed structurally to the revenue and orders in this sector. As foreign countries were the first to recover from the COVID-19 pandemic, the potential demand and overseas business volume in this sector also increased significantly.

In the industries of electronic chemicals and family care, the Group recorded a relatively significant period-on-period increase in new orders, mainly due to significant growth in demand for photovoltaic raw materials in various countries in the past two years, particularly since the armed conflict between the Russian Federation and Ukraine on 24 February 2022 (the "**Russia-Ukraine Conflict**"); the international family care product market has gradually recovered from the impact of the COVID-19 pandemic, and the demand of the Group's major overseas customers for capital expenditure projects began to recover to a great extent.

In the industries of chemicals and oil and gas, the Group recorded a steady growth in new orders, which mainly came from customers' production device projects for new materials (such as new resin materials, polyolefin thermoplastic elastomer ("**POE**"), polyhydroxyalkanoates ("**PHA**"), polylactic acid ("**PLA**"), polybutylene succinate ("**PBS**") and polybutylene adipate/terephthalate), and sizable domestic and overseas capital investment projects related to these two fields.

MACRO POLICIES AND MARKET OUTLOOK OF KEY DOWNSTREAM INDUSTRIES/FIELDS

It was pointed out at the 2022 Central Economic Work Conference of China that China will enhance the status and competitiveness of traditional industries in the global industrial division of labour, and accelerate the research and development and application of cutting-edge technologies such as new energy, artificial intelligence, bio-manufacturing, green low-carbon and quantum computing.

Sealand Securities Co., Ltd. ("**Sealand Securities**") believes that the manufacturing industry as a whole will become a key area that macro policies focus on, and manufacturing investment will play an important role in supporting the economic recovery; the focus of industrial policy is to find the intersection of safety and development, and greater policy support is expected for new energy, artificial intelligence, bio-manufacturing, and quantum computing. Changjiang Securities Company Limited is of the view that the industries with high external dependence and high technology added value in the course of development previously are in a better position to meet the current upgrading needs of the manufacturing industry, and are worth continuous investment for rapid upgrading, such as the industries of machinery, semiconductor manufacturing and pharmaceuticals.

During the Reporting Period, the Group had a deep insight into the changes in downstream industries under macro policies, adjusted its industrial strategies in a timely manner, made scientific allocation and development of resources such as hardware production capacity and talents, and continued to improve profitability under the goal of maintaining sustainable growth.

Clean energy and raw materials of power battery

The report of the Twentieth National Congress of the Communist Party of China proposed to promote the clean, low-carbon and efficient use of energy, and to put the development of new and clean energy in a more prominent position. Driven by the Dual Carbon Commitment as the top-level development priority, the raw materials of power battery industry with China as the main consumer market will achieve rapid development.

According to a report of the Shanghai Securities News on 1 February 2023, the production volume of new energy vehicles in China was approximately 6.584 million units in 2022, representing a year-on-year increase of approximately 88.8%; the total installed capacity of power battery in the Chinese market was approximately 302.3 gigawatt-hours ("**GWh**"), representing a year-on-year increase of approximately 89.7%, of which, the installed capacity of power battery in the field of new energy passenger vehicles was approximately 270.2 GWh, accounting for approximately 89.4% of the total installed capacity of power battery in the market in China, representing an year-on-year increase of approximately 93.6%; the installed capacity in the field of new energy buses was approximately 10.9 GWh, accounting for approximately 3.6% of the total installed capacity of power battery in the Chinese market, representing an increase of approximately 18.1% year-on-year; the installed capacity in the field of new energy special vehicles was approximately 21.1 GWh, accounting for approximately 7% of the total installed capacity of power battery in the market in China, representing a year-on-year increase of approximately 101.5%. From the perspective of the material type of power batteries, the installed capacity of lithium iron phosphate battery in 2022 was approximately 184.5 GWh, accounting for approximately 61% of the total installed capacity of power battery in the Chinese market, representing a year-on-year increase of approximately 126.5%; the installed capacity of ternary battery was approximately 117.3 GWh, accounting for approximately 38.8% of the total installed capacity of power battery in the market in China, representing a year-on-year increase of approximately 51.1%.

Frost & Sullivan ("**F&S**") predicted that the global installed capacity of power battery will grow at a compound annual growth rate of approximately 33.8% between 2022 and 2026, and reach approximately 1,386.7 GWh in 2026, of which, the installed capacity of power battery in China is expected to reach approximately 762.0 GWh in 2026, and the compound annual growth rate from 2022 to 2026 will reach approximately 34.9%.

The supply of raw materials of power battery, mainly electrolytes (including electrolyte lithium salts, binders and other additives), positive and negative electrode materials and separators, is bound to continuously expand with the growing installed capacity of power battery. Although traditional lithium salt products such as lithium hexafluorophosphate received the most attention in the market from 2020 to 2022, it has been considered that their supply capacity in the market has saturated, and they have problems such as poor thermal stability and easy hydrolysis, and potential major safety hazards. Therefore, new lithium salts such as lithium bisfluorosulfonimide, lithium bisfluorophosphate and lithium tetrafluoroborate will receive further attention and capacity release.

Minsheng Securities Co., Ltd. ("**Minsheng Securities**") believes that the fluoride ion of lithium bisfluorosulfonyl imide has a strong electron-withdrawing property, and the activity of lithium ion is relatively strong, with stronger electrical conductivity, thermal and electrochemical stability as compared with lithium hexafluorophosphate, enabling it to improve the cruising range and charge and discharge power of new energy vehicles in summer and winter, and enhance the safety of new energy vehicles under extreme conditions, so the proportion of lithium bisfluorosulfonyl imide used in electrolyte additives in the future is expected to increase. Compared with other lithium salts, lithium bisfluorosulfonyl imide has better thermal stability and electrochemical stability, and can be used in conjunction with high-nickel ternary materials to form a generation of lithium battery with long battery life, wide temperature and high safety. The extensive application of high-nickel ternary battery technology represented by Tesla 4680 battery will drive the consumption and capacity demand of new lithium salt represented by lithium bisfluorosulfonyl imide. Minsheng Securities estimated that the total global production capacity of lithium bisfluorosulfonyl imide was approximately 32,000 tonnes in 2021, and is expected to reach approximately 204,100 tonnes in 2025, with a compound annual growth rate of approximately 58.63%, which is a rapid growth.

The ternary cathode materials with nickel, cobalt, and manganese as the main components are highly dependent on the development of upstream raw ore resources, and have the characteristics of long investment cycle, high return and high value of capital expenditure. The main enterprises that develop and produce ternary cathode materials need to cover the whole life cycle from raw ore development to material recycling. According to the data sorted out by Gaogong Industry Institute. Co. Ltd. (高工產業研究院) ("**GGII**") and the Chinese Academy of Industry Economy Research (中商產業研究院), the global shipment of ternary cathode materials reached approximately 718,000 tonnes in 2021, representing a year-on-year increase of approximately 70.9%, driving the global shipment of ternary precursors to reach approximately 738,000 tonnes, representing a year-on-year increase of approximately 75.7%, which is a rapid growth. GGII predicted that in 2025, the global shipments of ternary cathode materials and precursors will reach approximately 2 million tonnes and 1.6 million tonnes, respectively, with ample room for growth.

Biopharmaceutical

The global COVID-19 pandemic entered a new stage in 2022, and the various uncertainties caused by the COVID-19 pandemic began to come to an end in various countries. With the gradual recovery of major economies, biopharmaceutical technology, which is vital for social development and human civilization progress, has also evolved rapidly from traditional vaccines, insulin, monoclonal antibodies to cell therapy, new recombinant protein products and application scenarios, nucleic acid drugs, and antibody-drug conjugates.

According to the F&S data analyzed by Huaon Industrial Research Institute (華經產業研究院), the market size of global biopharmaceutical industry reached approximately US$336.6 billion in 2021, representing a year-on-year increase of approximately 13%, and it is expected that the market size of global biopharmaceutical industry will grow to approximately US$379 billion in 2022; the market size of China's biopharmaceutical industry reached approximately RMB424.8 billion in 2021, representing a year-on-year increase of approximately 22.9%, and it is expected that the market size of China's biopharmaceutical industry will increase to approximately RMB516.2 billion in 2022.

According to the 2022 Annual White Paper on Innovative Drugs (《2022創新藥年度白皮書》) published by VBDATA.CN (動脈網) and VCBeat Research (蛋殼研究院), as of 20 December 2022, the Chinese government issued a total of 49 policies related to biopharmaceuticals in 2022, mainly focusing on accelerating the high-quality development of the biopharmaceutical industry and standardizing the development of the biopharmaceutical industry, and introduced special policies in the fields of gene and cell therapy, antibody drugs, Contract X Organization ("**CXO**"), nucleic acid drugs, and nuclear drugs to standardize and accelerate the development of related fields.

In May 2022, in order to scientifically plan and systematically promote the high-quality development of bio-economy in China, the National Development and Reform Commission of China ("**NDRC**") issued the 14th Five-Year Plan for Bioeconomic Development (《「十四五」生物經濟發展規劃》) (the "**14th Five-Year Plan**"), which is also the first top-level design in the field of bio-economy in China. The 14th Five-Year Plan 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.

In the post-pandemic era, the supply chain related to the biopharmaceutical industry will remain strong, especially that the financing and investment needs of top domestic and overseas innovative pharmaceutical companies and industry-leading CXOs will last for a long time. The global biopharmaceutical industry chain is also gradually expanding to developing countries mainly concentrated in the southern hemisphere, so as to help all mankind to jointly cope with the next possible global public health crisis.

New chemical materials

The chemical industry has always been the most active platform for the development of industrial civilization and technological frontiers of mankind. New chemical materials refer to advanced materials with excellent properties and functions that have emerged or are under development in the field of chemical industry, and are knowledge-intensive and technology-intensive new materials with high technological content and high value, with the characteristics of environmental protection such as recyclability and degradability as compared with traditional chemical products.

On 9 January 2023, the Ministry of Industry and Information Technology of China, the NDRC, the Ministry of Finance, the Ministry of Ecology and Environment, the Ministry of Agriculture and Rural Affairs, and the State Administration for Market Regulation jointly issued the Three-Year Action Plan for Accelerating the Innovative Development of Non-grain Bio-based Materials (《加快非糧生物基材料創新發展三年行動方案》) ("**Action Plan**"), which proposes that by 2025, the non-grain bio-based material industry shall basically develop an innovative development ecology with strong independent innovation capabilities, continuously enriched product systems, and a green cycle and low carbon emission, the utilization and application technologies of non-grain bio-based raw materials shall be basically mature, the competitiveness of certain non-grain bio-based products shall be comparable to that of fossil-based products, and a high-quality, sustainable supply and consumption system shall be initially established. In terms of specific products, the Action Plan encourages the establishment of lactic acid production lines with production capacity of 100,000 tonnes and saccharification production lines with annual production capacity of 10,000 tonnes in the next three years, encourages the enrichment of bio-based chemicals and polymers such as lactic acid, pentamethylenediamine and PHA, and the bio-based materials encouraged for development include PLA, PHA, polyamide, polyurethane, polycarbonate, 1,4-butanediol, PBS, polyterephthalate-adipate (succinate)-butylene and polytetrahydrofuran.

Sealand Securities holds the view that the Russia-Ukraine Conflict has led to an increase in the price of raw materials such as natural gas, which has in turn caused a shortage of industrial natural gas, resulting in a large gap in the supply of chemical products in Europe and exacerbating the shortage of chemical raw materials in the international market. However, for the chemical industry in new industrialized countries (including China) that are not affected by raw material factors, this will help enhance the cost advantages and improve global competitiveness and profitability.

In addition, under the active encouragement of macroeconomic policies, ethylene-vinyl acetate copolymer, POE, biodiesel, chemical materials under the guidance of biosynthesis and biodegradable materials such as PLA and PHA made of polymer polymerization will usher in a period of accelerated development in line with the theme of green environmental protection and sustainable development.

Electronic chemicals

The three major application fields of the electronic chemicals industry include integrated circuits for semiconductors, flat panel displays, and solar photovoltaics. Driven by the Dual Carbon Commitment and supporting policies, renewable energy has become an important part for realizing the development model of circular economy.

According to the 2022 statistics of national power industry released by the National Energy Administration, photovoltaics is still the fastest growing sector of new energy. In 2022, the new installed capacity of photovoltaics was approximately 87.41 gigawatts ("**GW**"), representing a year-on-year increase of approximately 60.3%, hitting a record high; the installed capacity of solar power was approximately 390 million kilowatts, representing a year-on-year increase of approximately 28.1%. According to the report of Shanghai China Business Network Co. Ltd. (上海第一財經傳媒有限公司), 2023 is a critical year for the 14th Five-Year Plan, and all parties in the market are generally optimistic about the growth in demand for photovoltaic installed capacity in 2023. According to the goal set by the National Energy Administration, the new installed capacity of wind power and solar power will reach approximately 160 million kilowatts in 2023. Based on the ratio of 3:7 for wind power installed capacity and solar power installed capacity in 2022, the new installed capacity of solar power will exceed 110 GW in 2023. The accelerated development of downstream businesses will inevitably boost the demand for upstream silicon products.

The development of semiconductors and other high-end integrated circuit products depends on manufacturing materials and packaging materials. Materials related to electronic chemicals include wet electronic chemicals (electronic-grade sulfuric acid, hydrogen peroxide, and ammonium fluoride, etc.), special gases, and photoresists. Shenzhen Jingtai Investment Development Co., Ltd. ("**Jingtai Capital**") is of the view that the main driving force for the growth of global demand for wet electronic chemicals comes from the completion and operation of several wafer fabs and the development of the organic light-emitting diode industry, and estimates that by 2025, the global demand for wet electronic chemicals in the field of integrated circuits will increase to approximately 2.81 million tonnes, the demand for wet electronic chemicals in the field of flat panel displays will increase to approximately 2.43 million tonnes, and the demand for wet electronic chemicals in the field of photovoltaic solar cells will increase to approximately 1 million tonnes, with the total demand for wet electronic chemicals in these three fields reaching approximately 6.24 million tonnes.

Top-level policies and macroeconomic conditions promote industrial development and technological innovation. The Group pays continuous attention to the development trend of downstream industries and macro policies, promptly responds to changes in industries and policies, adheres to the philosophy of dynamic layout for multiple sectors, flexibly utilizes hardware production capacity, and allocates more resources to key sectors. Raw materials of power battery, biopharmaceuticals, new chemical materials and electronic chemicals are the sectors that the Group considers promising in the long term.

EXPANSION OF PRODUCTION CAPACITY

The Group has two modern manufacturing bases in Nantong (along the Yangtze River) and Shanghai, China, and a coastal manufacturing base in Malaysia. During the Reporting Period, the Group commenced construction of its high-end biopharmaceutical equipment manufacturing base in Changshu, China, which is located in the Suzhou Pharmaceutical Valley, adjacent to the Group's manufacturing base in Nantong, and mainly engaged in the manufacturing of high-end intelligent equipment and complete sets of professional precision equipment in the industries/fields of biopharmaceuticals, family care and electronic chemicals.

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. After the commencement of operation, this expansion project ramped up the production capacity in a short period of time, and had generated revenue during the Reporting Period.

Changshu manufacturing base project

During the Reporting Period, the Group's high-end equipment manufacturing base project of Morimatsu (Suzhou) LifeSciences Company Limited (森松(蘇州)生命科技有限公司) located in Changshu, Suzhou City, Jiangsu Province commenced construction, 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 complete sets of equipment of digital intelligence for the biopharmaceutical field, wet electronic chemical field, family care 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. 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 and pharmaceuticals/biopharmaceuticals in such regions. During the Reporting Period, this base had completed the delivery for the first batch of orders and realized revenue.

Technical centers and engineering centers

In addition to hardware production capacity, the Group continued to increase investment to develop the advanced technical center in Milan, the Republic of Italy (mainly serving the pharmaceutical and biopharmaceutical industry/field), the advanced engineering technical center in Yokohama, Japan (mainly serving the material innovation field) and the engineering centers in Wuhan, China and Mumbai, India (providing design services in compliance with the standards in different countries and participating in the execution of specific projects).

REVIEW OF FINANCIAL DATA

During the Reporting Period, the Group recorded revenue of approximately RMB6,486,277,000, representing a year-on-year increase of approximately 51.3%. During the Reporting Period, the Group's net profit was approximately RMB666,182,000, representing a year-on-year increase of approximately 74.5%.

Revenue

During the Reporting Period, the Group's revenue increased by approximately 51.3% which was mainly attributable to the revenue generated from the industry/field of pharmaceutical, raw materials of power battery and electronic chemical.

	As of 31 December				Increase/	Year-on-year
	2022		2021		(decrease)	change
Revenue by end application	*RMB'000*	*Proportion*	*RMB'000* (Restated)	*Proportion* (Restated)	*RMB'000*	
Electronic chemical	**879,357**	**13.6%**	441,742	10.3%	437,615	99.1%
Chemical	**1,563,376**	**24.1%**	1,670,471	39.0%	(107,095)	-6.4%
Family care *Note 1*	**403,258**	**6.2%**	157,330	3.7%	245,928	156.3%
Raw materials of power battery *Note 2*	**995,435**	**15.3%**	261,270	6.1%	734,165	281.0%
Oil and gas	**161,158**	**2.5%**	258,516	6.0%	(97,358)	-37.7%
Pharmaceutical	**2,154,425**	**33.2%**	1,302,977	30.4%	851,448	65.3%
Others	**329,268**	**5.1%**	193,916	4.5%	135,352	69.8%
Total	**6,486,277**	**100.0%**	4,286,222	100.0%	2,200,055	51.3%

Note 1: Previously known as daily chemical. For better business delineation, this industry has been renamed to family care. The offerings and products under this industry remain unchanged.

Note 2: Raw materials of power battery include mining and metallurgy industry.

Cost of sales

During the Reporting Period, the cost of sales increased by approximately 51.3% from approximately RMB3,102,639,000 for the year ended 31 December 2021 to approximately RMB4,692,891,000. The increase in cost of sales was in line with the increase in revenue.

	As of 31 December					Year-on-year
	2022		2021		Increase	change
Cost of sales	***RMB'000***	***Proportion***	*RMB'000* (Restated)	*Proportion* (Restated)	*RMB'000*	
Raw materials and consumables	**3,189,837**	**68.0%**	2,037,829	65.7%	1,152,008	56.5%
Direct labour costs	**474,977**	**10.1%**	406,600	13.1%	68,377	16.8%
Outsourcing fees	**401,528**	**8.6%**	249,441	8.0%	152,087	61.0%
Installation and repair cost	**370,342**	**7.9%**	182,690	5.9%	187,652	102.7%
Depreciation	**61,968**	**1.3%**	57,291	1.8%	4,677	8.2%
Impairment losses on assets	**(1,131)**	**0.0%**	(9,071)	-0.3%	7,940	-87.5%
Others (indirect labour cost + design fees)	**195,370**	**4.1%**	177,859	5.8%	17,511	9.8%
Total	**4,692,891**	**100.0%**	3,102,639	100.0%	1,590,252	51.3%

Gross profit and gross profit margin

During the Reporting Period, the gross profit of the Group increased by approximately 51.5% from approximately RMB1,183,583,000 for the year ended 31 December 2021 to approximately RMB1,793,386,000, basically in line with the increase in revenue; the gross profit margin of the Group was approximately 27.6%, which is same as that for the year ended 31 December 2021.

Gross profit by end application	As of 31 December 2022 RMB'000	2022 Gross profit margin	2021 RMB'000 (Restated)	2021 Gross profit margin (Restated)	Increase/ (decrease) RMB'000	Change in gross profit margin
Electronic chemical	**192,036**	**21.8%**	108,359	24.5%	83,677	-2.7%
Chemical	**344,307**	**22.0%**	413,645	24.8%	(69,338)	-2.8%
Family care [Note 1]	**151,987**	**37.7%**	35,791	22.7%	116,196	15.0%
Raw materials of power battery [Note 2]	**299,111**	**30.0%**	86,975	33.3%	212,136	-3.3%
Oil and gas	**41,631**	**25.8%**	62,855	24.3%	(21,224)	1.5%
Pharmaceutical	**677,222**	**31.4%**	402,978	30.9%	274,244	0.5%
Others	**87,092**	**26.5%**	72,980	37.6%	14,112	-11.1%
Total	**1,793,386**	**27.6%**	1,183,583	27.6%	609,803	—

Note 1: Previously known as daily chemical. For better business delineation, this industry has been renamed to family care. The offerings and products under this industry remain unchanged.

Note 2: Raw materials of power battery include mining and metallurgy industry.

Electronic chemical

During the Reporting Period, the gross profit of the electronic chemical industry of the Group increased by approximately RMB83,677,000, from approximately RMB108,359,000 for the year ended 31 December 2021 to approximately RMB192,036,000 for the year ended 31 December 2022; the gross profit margin decreased from approximately 24.5% for the year ended 31 December 2021 to approximately 21.8% for the year ended 31 December 2022. The decrease in gross profit margin was mainly due to the fact that in order to expand market influence and protect the iteration of new equipment, the Group adopted a strategy of confrontational competition model to receive orders for certain projects.

Chemical

During the Reporting Period, the gross profit of the chemical industry of the Group decreased by approximately RMB69,338,000, from approximately RMB413,645,000 for the year ended 31 December 2021 to approximately RMB344,307,000 for the year ended 31 December 2022; the gross profit margin decreased from approximately 24.8% for the year ended 31 December 2021 to approximately 22.0% for the year ended 31 December 2022. The decrease in gross profit margin was mainly due to the fact that the Group undertook certain projects with relatively low gross profit margins from certain customers in order to obtain follow-up large-value contracts from such customers, and that additional cost was incurred for the first-time production of new products and the first-time application of new processes.

Family care

During the Reporting Period, the gross profit of the family care industry of the Group increased by approximately RMB116,196,000, from approximately RMB35,791,000 for the year ended 31 December 2021 to approximately RMB151,987,000 for the year ended 31 December 2022; the gross profit margin increased from approximately 22.7% for the year ended 31 December 2021 to approximately 37.7% for the year ended 31 December 2022. The increase in gross profit margin was mainly due to the fact that the Group reduced the cost for providing digital modular system and overall process line to a leading enterprise in an industry by taking advantage of its strong design capabilities to optimize the solutions to this customer.

Raw materials of power battery

During the Reporting Period, the gross profit of the raw materials of power battery field of the Group increased by approximately RMB212,136,000, from approximately RMB86,975,000 for the year ended 31 December 2021 to approximately RMB299,111,000 for the year ended 31 December 2022; the gross profit margin decreased from approximately 33.3% for the year ended 31 December 2021 to approximately 30.0% for the year ended 31 December 2022. The decrease in gross profit margin was mainly due to the fact that the Group undertook certain projects with relatively low gross profit margins in order to expand overseas markets, and that the inspection costs were increased for certain overseas projects.

Oil and gas

During the Reporting Period, the gross profit of the oil and gas industry of the Group decreased by approximately RMB21,224,000, from approximately RMB62,855,000 for the year ended 31 December 2021 to approximately RMB41,631,000 for the year ended 31 December 2022; the gross profit margin increased from approximately 24.3% for the year ended 31 December 2021 to approximately 25.8% for the year ended 31 December 2022. The increase in gross profit margin was mainly due to the fact that equipment requiring the making of special materials was involved in certain projects, which have high requirements for production and thus higher gross profit.

Pharmaceutical

During the Reporting Period, the gross profit of the pharmaceutical industry of the Group increased by approximately RMB274,244,000, from approximately RMB402,978,000 for the year ended 31 December 2021 to approximately RMB677,222,000 for the year ended 31 December 2022. The gross profit margin remained stable as compared to the year ended 31 December 2021.

Other income/(loss)

During the Reporting Period, the Group recorded other loss of approximately RMB701,000, while it recorded other income of approximately RMB5,876,000 for the year ended 31 December 2021, which was mainly due to the increase in net losses from the settlement of forward exchange contracts.

Selling and marketing expenses

The Group's selling and marketing expenses primarily consists of the salaries and benefits of its sales and marketing staff, commissions, customer service fees, travel expenses and marketing and promotion expenses. During the Reporting Period, the selling and marketing expenses of the Group increased by approximately RMB77,901,000 from approximately RMB106,559,000 for the year ended 31 December 2021 to approximately RMB184,460,000 for the year ended 31 December 2022, mainly due to (1) the increase in the headcount of sales staff in line with the expansion of business scale, resulting in an increase in relevant salary and benefit expenses; and (2) the increase in the commission fees paid to third parties for exploring overseas markets and new customers. During the Reporting Period, the selling and marketing expenses accounted for approximately 2.8% of the Group's total revenue (2021:2.5%).

General and administrative expenses

The Group's general and administrative expenses primarily consists of the salaries and benefits of management and administrative staff, office expenses and consulting fees. During the Reporting Period, the general and administrative expenses of the Group increased by approximately RMB128,948,000, from approximately RMB381,500,000 for the year ended 31 December 2021 to approximately RMB510,448,000 for the year ended 31 December 2022, mainly due to (1) the new adoption of a restricted share unit scheme on 15 December 2021, resulting in an increase of RMB71,836,000 in share-based payment expenses; and (2) the increases in the salaries and benefits of management and administrative staff, depreciation and amortization expenses related to long-term asset investment as well as travel expenses and entertainment expenses to support the rapid expansion of business scale. Benefiting from a series of cost reduction and efficiency enhancement measures, the general and administrative expenses accounted for approximately 7.9% of the Group's total revenue during the Reporting Period (2021:8.9%).

Research and development expenses

During the Reporting Period, the Group's research and development expenses increased by approximately RMB89,456,000, from approximately RMB226,628,000 for the year ended 31 December 2021 to approximately RMB316,084,000 for the year ended 31 December 2022, which was mainly due to the increase in the Group's investment of manpower and resources in new fields, new products and new processes to enhance its core competitiveness.

Finance costs

During the Reporting Period, the Group's finance costs decreased by approximately RMB6,843,000, from approximately RMB22,794,000 for the year ended 31 December 2021 to approximately RMB15,951,000 for the year ended 31 December 2022, mainly due to (1) the repayment of part of the bank loans in the second half of 2021, resulting in a corresponding decrease in interest expenses; and (2) the full capitalization of the interest on bank loans incurred for the construction of the manufacturing base in Changshu, resulting in a decrease in the interest expenses included in finance costs.

Income tax expenses

During the Reporting Period, the Group's income tax expenses increased by approximately RMB27,430,000, from approximately RMB67,305,000 for the year ended 31 December 2021 to approximately RMB94,735,000 for the year ended 31 December 2022. The Group derived its profit mainly from two subsidiaries located in China, which enjoy a preferential enterprise income tax rate of 15%. During the Reporting Period, the Group's effective income tax rate was approximately 12.5%, representing a decrease of approximately 2.5%

from approximately 15.0% for the year ended 31 December 2021, mainly attributable to the temporary preferential tax policy of the Chinese government, which allowed high-tech enterprises to enjoy 100% additional deduction before tax for the equipment and appliances newly purchased in the fourth quarter of 2022.

Net profit and net profit margin

Based on the above factors, the Group recorded a net profit of approximately RMB666,182,000 during the Reporting Period, representing an increase of approximately RMB284,344,000 from approximately RMB381,838,000 for the year ended 31 December 2021; the Group's net profit margin was approximately 10.3%, representing an increase of approximately 1.4% from approximately 8.9% for the year ended 31 December 2021.

Non-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

During the Reporting Period, the Group recorded an EBITDA of approximately RMB890,682,000, representing an increase of approximately RMB325,733,000 or approximately 57.7% from approximately RMB564,949,000 for the year ended 31 December 2021. Excluding the listing expenses and share-based payments, the Group recorded an adjusted EBITDA of approximately RMB1,030,069,000 during the Reporting Period, representing an increase of approximately RMB376,515,000 or approximately 57.6% from approximately RMB653,554,000 for the year ended 31 December 2021.

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
		(Restated)
Net profit	**666,182**	381,838
Add: Income tax expenses	**94,735**	67,305
Finance costs	**15,951**	22,794
Depreciation	**98,443**	79,343
Amortization	**15,371**	13,669
EBITDA	**890,682**	564,949
Add: Share-based payments	**139,387**	67,551
Listing expense	**—**	21,054
Adjusted EBITDA	**1,030,069**	653,554

Property, plant and equipment

The balance of property, plant and equipment of the Group increased by approximately 31.2%, from approximately RMB1,227,021,000 as at 31 December 2021 to approximately RMB1,609,565,000 as at 31 December 2022, mainly due to the increase of the Group's investment in the construction of the two manufacturing bases in Nantong and Changshu.

Trade and other receivables

The Group's trade and other receivables increased by approximately 26.5%, from approximately RMB921,456,000 as at 31 December 2021 to approximately RMB1,165,785,000 as at 31 December 2022, 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 resulting from the purchase of raw materials for more orders on hand.

Contract assets

The Group's contract assets increased by approximately 36.3%, from approximately RMB609,515,000 as at 31 December 2021 to approximately RMB830,927,000 as at 31 December 2022, which was mainly due to the significant increase in new orders entered into during the Reporting Period, 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 80.0%, from approximately RMB1,229,633,000 as at 31 December 2021 to approximately RMB2,213,728,000 as at 31 December 2022, of which work in progress increased by approximately RMB728,444,000 and raw materials increased by approximately RMB255,651,000, which 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 49.2%, from approximately RMB1,094,663,000 as at 31 December 2021 to approximately RMB1,633,543,000 as at 31 December 2022, which was mainly due to (1) the increase in trade payables as a result of the increase in purchase volume in line with the expansion of business scale; (2) the increase in the salaries payable to employees in line with the increase in the number of employees; and (3) the increase in accrued commission fees to third parties in order to explore new markets and new customers.

Contract liabilities

The Group's contract liabilities increased by approximately 33.1%, from approximately RMB2,171,901,000 as at 31 December 2021 to approximately RMB2,890,048,000 as at 31 December 2022, mainly due to the increase in new orders entered into during the Reporting Period and the management's efforts to strictly require advance payments for projects.

Borrowings and gearing ratio

The total borrowings of the Group increased from approximately RMB370,002,000 as at 31 December 2021 to approximately RMB444,233,000 as at 31 December 2022, mainly due to the increase in bank borrowings to pay part of the amount required for engineering construction.

As at 31 December 2022, the borrowings of the Group bore interest at a rate between 2.51% to 6.81%, of which fixed-rate borrowings amounted to approximately RMB254,131,000 and variable-rate borrowings amounted to approximately RMB190,102,000. RMB denominated borrowings amounted to approximately RMB360,809,000, of which approximately RMB254,249,000 will be due within 1 year, and approximately RMB106,560,000 will be due after 2 years but within 5 years; and HKD denominated borrowings amounted to approximately RMB83,424,000, of which, approximately RMB350,000 will be due within one year, and approximately RMB83,074,000 will be due after 1 year but within 2 years.

Gearing ratio is calculated by dividing interest-bearing borrowings by total equity. The Group's gearing ratio decreased from approximately 18.4% as at 31 December 2021 to approximately 15.7% as at 31 December 2022, mainly due to the increase in reserves as a result of the earnings during the Reporting Period.

Liquidity and capital resources

As at 31 December 2022, the balance of cash and cash equivalents of the Group was approximately RMB1,370,359,000, representing a decrease of approximately RMB178,516,000 from approximately RMB1,548,875,000 as at 31 December 2021. Under the premise of ensuring liquidity, the Group purchased short-term wealth management products issued by banks with idle funds, the outstanding amount of which was approximately RMB253,748,000 as at 31 December 2022.

The liquidity of the Group mainly includes cash generated from operating activities, net proceeds from the global offering and bank 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.

As at 31 December 2022, the Group had total bank facilities of RMB1,685,000,000, USD116,108,000, Swedish Krona 300,000,000, HK$93,000,000 and Japanese Yen ("**JPY**") 16,400,000,000 (aggregately equivalent to RMB3,635,161,000), of which, used bank facilities were approximately RMB1,105,317,000, USD57,636,000, Euro 3,686,000, HK$93,000,000 and JPY82,000,000 (aggregately equivalent to approximately RMB1,621,454,000), and unused bank facilities were equivalent to RMB2,013,707,000.

Contingent liabilities and guarantees

As at 31 December 2022, the Group did not have any material contingent liabilities or guarantees.

Issue of equity securities

During the Reporting Period, 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. (上海森松生物科技有限公司) ("**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 31 December 2022, the registered capital of Morimatsu Biotechnology was RMB50 million, and the Company indirectly held 72.25% of the equity interest of 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 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. (上海森眾生物技術有限公司) ("**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 31 December 2022, the registered capital of Mori-Biounion Technology was RMB41.3 million, and Morimatsu Biotechnology directly held 59.32% of the equity interest of Mori-Biounion Technology.

On 1 July 2022, Morimatsu Pharmaceutical Equipment, a subsidiary of the Group, and two associate partners established Jiangsu Qunchuang Wisdom New Material Co., Ltd. (江蘇群創智慧新材料有限公司) in the PRC, which is mainly engaged in the research and development, manufacturing and sales of new membrane materials. As at 31 December 2022, the registered capital of the said company was RMB300 million and the Company indirectly held 20% of its equity interest.

On 11 July 2022, Morimatsu Heavy Industry, a subsidiary of the Group, and three associate partners 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. As at 31 December 2022, the registered capital of the said company was RMB10 million, and the Company indirectly held 36% of its equity interest.

Save as disclosed above, the Group did not hold any other significant investments, nor did it have any material acquisitions or disposals of subsidiaries during the Reporting Period.

Important events after the Reporting Period

On 4 January 2023, the Company, Morimatsu Holdings and China International Capital Corporation Hong Kong Securities Limited ("**CICC**") entered into a placing and subscription agreement, pursuant to which, (1) Morimatsu Holdings had agreed to appoint CICC, and CICC had agreed to act as agent of Morimatsu Holdings and to procure purchasers to purchase on a best effort basis, an aggregate of up to 80,000,000 existing Shares at the placing price; and (2) Morimatsu Holdings had agreed to subscribe for, and the Company has agreed to allot and issue to Morimatsu Holdings, an aggregate of up to 80,000,000 new Shares at the subscription price (being the same as the placing price), in each case upon the terms and subject to the conditions set out in the placing and subscription agreement. The completion of the placing took place on 9 January 2023 in accordance with the terms and conditions of the placing and subscription agreement, where an aggregate of 80,000,000 sale Shares were successfully placed to no less than six placees at the placing price of HK$8.30 for each sale Share. As all conditions of the subscription had been fulfilled, the Company allotted and issued 80,000,000 subscription Shares to Morimatsu Holdings at HK$8.30 per subscription Share on 12 January 2023 in accordance with the terms and conditions of the placing and subscription agreement. For further details, please refer to the announcements of the Company dated 4 January 2023 and 12 January 2023.

On 16 January 2023, the Company established a new wholly-owned subsidiary, Morimatsu Pharmadule (Singapore) Pte. Ltd. ("**Pharmadule Singapore**"). The registered capital of Pharmadule Singapore is Singapore Dollar 500,000, which mainly provides technical and service support for the Group's business expansion in Southeast Asia.

Save as disclosed above, as of the date of this announcement, the Group had no significant events after the Reporting Period.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had a total of 4,142 employees, including 521 research and development personnel, accounting for more than 12% 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 scheme. Specific information will be available in the annual report of the Company for the Reporting Period.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the Reporting Period.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting (the "**AGM**") of the Company will be held on Wednesday, 28 June 2023. 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 Friday, 23 June 2023 to Wednesday, 28 June 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 21 June 2023.

PURCHASE, SALE AND REPURCHASE OF SHARES

During the Reporting Period, the Group did not purchase, sell or redeem 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. During the Reporting Period, 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 during the Reporting Period.

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 during the Reporting Period.

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 chairperson of the Audit Committee is Ms. Chan Yuen Sau Kelly. The Group's annual results for the Reporting Period have been reviewed by the Audit Committee.

AUDITOR

The Company has engaged KPMG as its auditor for the Reporting Period. 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 Reporting Period 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 Reporting Period. 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 HKICPA 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 (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, 22 March 2023

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.