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

(Incorporated in Hong Kong with limited liability)

Stock code : 2155

2022 Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Nishimatsu Koei
Mr. Hirazawa Jungo
Mr. Tang Weihua
Mr. Sheng Ye
Mr. Kawashima Hirotaka

Non-executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

Ms. Chan Yuen Sau Kelly
Mr. Kanno Shinichiro
Mr. Yu Jianguo

REGISTERED OFFICE

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235 Wing Lok Street
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRC

COMPANY'S WEBSITE ADDRESS

www.morimatsu-online.com

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap
Ms. Lau Wai Yee

AUTHORISED REPRESENTATIVES

Mr. Nishimatsu Koei
Ms. Lau Wai Yee

AUDIT COMMITTEE

Ms. Chan Yuen Sau Kelly (Chairperson)
Mr. Kanno Shinichiro
Mr. Matsuhisa Terumoto

REMUNERATION COMMITTEE

Mr. Yu Jianguo (Chairman)
Ms. Chan Yuen Sau Kelly
Mr. Matsuhisa Terumoto

NOMINATION COMMITTEE

Mr. Matsuhisa Terumoto (Chairman)
Mr. Kanno Shinichiro
Mr. Yu Jianguo

HONG KONG SHARE REGISTRAR

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

COMPLIANCE ADVISER

Sinolink Securities (Hong Kong) Company Limited
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PRC

Mizuho Bank (China) Limited
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PRC

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11/F, Shanghai World Financial Centre
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Pudong New District
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AUDITOR

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Hong Kong

STOCK CODE

2155

Chief Executive Officer's Statement

Dear Shareholders,

On behalf of the Board (the "**Board**") of Directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2022.

Looking back on 2022, the Company, like many other companies, had encountered various challenges caused by the novel coronavirus disease 2019 ("**COVID-19**"), including the city-wide static management in Shanghai, where the Group's operating headquarters is located, from the end of March to the end of May 2022, the continuous supply chain instability throughout the year caused by the COVID-19 control measures in various places, and the mass infections after the adjustment of COVID-19 control policy in December.

Under the leadership of the Board and the management team, all the staff of the Group worked tirelessly and unremittingly, and made extraordinary contributions in different positions with a professional attitude, helping the Group achieve record highs since its establishment in terms of new orders signed, orders on hand, revenue and net profit.

The growth and development of an enterprise is built on its intrinsic competitiveness, the source of which is the demand and trust of downstream customers. In 2022, the continued trust from long-standing customers was the fundamental reason for the Group's record performance. The market strategy to keep in line with leading companies has not only consolidated the mutual trust between upstream and downstream players, but also promoted the Group's continuous improvement and self-evolution to match the needs of downstream sectors in terms of technological development and product iteration.

The operating performance of the Group has achieved rapid and high-quality development in a short period of time since the Listing. The continuous support from the capital market has enabled the Group to rapidly implement strategies in terms of production capacity expansion, personnel reserve and sector expansion, to achieve sustainable growth and diversified development.

OPERATING PERFORMANCE

The Group's primary focus is on serving the continuing and innovative needs of the downstream industry, which are driven by society's ongoing quest for a better environment and healthier lives. As the COVID-19 pandemic entered its third year, the demand for capital expenditure projects had been gradually increasing in various downstream industries. Therefore, the Group had achieved greater diversification in terms of sector layout and better domestic-overseas balance in terms of market distribution as compared to 2020 and 2021.

During the Reporting Period, the Group's financial performance was excellent, with revenue, gross profit, net profit, the number and amount of new orders and the orders on hand hitting record highs. The revenue amounted to approximately RMB6,486 million, representing a year-on-year increase of approximately 51.33%; gross profit amounted to approximately RMB1,793 million, representing a year-on-year increase of approximately 51.52%; net profit amounted to approximately RMB666 million, representing a year-on-year increase of approximately 74.47%; the amount of new orders amounted to approximately RMB9,356 million, representing a year-on-year increase of approximately 40.60%; and the orders on hand amounted to approximately RMB8,622 million, representing a year-on-year increase of approximately 50.73%.

MARKET PLANNING AND PRODUCT STRATEGY

The development of the Group can be traced back to 1990 when China entered the new stage of reform and opening up, reaching a turning point in 1998 when China was about to enter the global economy, and took off in 2001 when China formally joined the World Trade Organization. By virtue of the continuous growth of domestic demand in China and the changes in the international division of labour under economic globalization, the Group has achieved continuous growth for decades. As such, the growth engine of the Group is not a single market (such as China) or foreign trade alone, but a balanced business presence in domestic and overseas markets.

The development of downstream companies, especially the leading enterprises in various industries represented by multinational companies, is mostly reflected in technological updates and product iterations, which are often accompanied by demands for capital expenditure projects. The Group's continuous development is therefore made possible by the fact that it has always served a diverse range of industries and a diversified clientele. Through years of development, the Group has provided products and solutions, represented by core equipment, for many multinational companies in the fields of advanced semiconductor materials, lithium battery materials, biofuels, biodegradable materials, advanced vaccines and recombinant proteins, covering markets in Asia, America, Europe and Africa.

INTERNATIONAL LAYOUT AND CAPACITY PLANNING

Since 2022, the Group has become clearly aware of the rapid growth in the demand from overseas markets, covering, amongst others, pharmaceutical (including biopharmaceutical), raw materials of power battery, oil and gas and electronic chemical, the main downstream sectors of the Group. A large number of capital expenditure projects flourished as the COVID-19 pandemic entered a new stage worldwide. Therefore, the Group rapidly organized a team to pay visits to overseas customers at multiple levels and in multiple batches, conducted in-depth exchanges with certain long-term customers on their capacity planning and talent reserve for the next two years, thereby consolidating the foundation of mutual trust for their upcoming investment period, and ushered in the prelude to the Group's accelerated internationalization in the post-pandemic era through a series of overseas orders.

Meanwhile, the Group's subsidiaries in North America, Europe and Asia are also entering a period of rapid expansion in line with the progress and outlook of market recovery. The Group has decided to continue to expand its hardware production capacity in Malaysia to enhance its ability to respond to special market demand in different international environment; and is also further developing its technical center in Milan, the Republic of Italy ("**Italy**"), with a view to continuously improving its own competitiveness and value attribute in the industrial chain of the pharmaceutical industry. The Company's subsidiary in the Republic of India ("**India**") will assume more functions in addition to the roles of a regional engineering design center, including providing all-round support for the operation and project management of Morimatsu Dialog, a joint venture in Malaysia; the two subsidiaries in North America will focus on serving the markets in North and South America under comprehensive recovery, including the business and potential opportunities from existing downstream sectors.

In order to cope with the rapid recovery of demand in domestic and foreign markets and the needs of corporate development, the Group has been steadily expanding its production capacity as a whole as planned. In particular, the new production capacity of the Nantong manufacturing base, which was constructed using part of the net proceeds from the Global Offering, was on 30 June 2022 and put into use immediately. As of now, the utilization rate of such new production capacity is close to 100%, and has begun to contribute to sales revenue. The Group's Changshu manufacturing base commenced construction in June 2022 and will be put into use in the fourth quarter of 2023 as planned, by which time the Group's overall scale is expected to leap to a new level.

TECHNOLOGY PRIORITY AND SERVICE INNOVATION

Technology priority is the driving force behind the Group's continuous rapid growth, and also an important way for a modern manufacturing enterprise to avoid homogeneous competition to the greatest extent. Technology priority is not just a slogan, but requires the Group to match up with and satisfy beyond expectation the continuous innovation needs of downstream enterprises in a timely manner, including from laboratory technology to industrial production, from a single production line to multiple production lines, and from a single site to global layout. The Group's products have always kept close in line the needs of customers and presented timely dynamic development and flexible international compatibility, thanks to which its customer viscosity has increased continuously.

In addition, technology priority is also reflected in the allocation of resources. The resources of traditional manufacturing enterprises are mostly inclined to front-line production personnel and hardware facilities, because they usually can generate economic benefits in a direct way. As a non-traditional manufacturing enterprise, the Group has more than 50% of employees composed of professional engineering and technical personnel and technical management personnel, and owns advanced technical centers and advanced engineering centers in Italy, Sweden and Japan that do not directly serve production activities. Well-developed technical resources have set up a second bridge for the cooperation between the Group and its customers. As the technical bridge is continuously consolidated, the business bridge is also getting wider and wider.

Service innovation is centered on the innovation needs of downstream industries. The Group is ready to provide technology and resources in the form of joint research and development, capacity upgrade and technological transformation to maintain, enhance and integrate customer relationships between the cycles of customer capital expenditure projects. Therefore, service is not just an accessory to traditional physical products. Pre-sales services reflect the technical mutual trust and the willingness of joint development between the Group and downstream enterprises, while after-sales services reflect the long-term cooperation therebetween, regardless of fluctuations in the investment cycle.

TALENT PHILOSOPHY AND ADVANTAGES IN DIVERSIFICATION

Talents are the most valuable resources, and the Group's greatest investment is its investment in talents.

Developing a talent pool (recruiting, nurturing and retaining talents) has always been one of the most important responsibilities of the Group's managers. Knowing and using people well is an important prerequisite for the position of a supervisor, tapping the growth potential of employees is a basic requirement for the position of a leader, and integrating the growth path of talents with the development direction of the Group is a compulsory course for senior managers before taking up their posts. A complete system of talent discovery, training and service is one of the most essential conditions for the realization of the Group's strategic goals.

The Group is committed to diversity in the workplace. The Group recruits professional talents from all over the world every year, and also provides all employees with employment positions and opportunities for further education in different countries. The open and expanding talent training system ensures that the professional engineers of the Group are always at the front line of communication with customers from various countries, and the front-line production staff of the Group continue to learn, apply and master the industry regulations and technical standards in different countries. The active interaction with institutions of higher education, scientific research institutions and downstream enterprises, including selecting and sending outstanding young employees to study for doctoral degrees in world-class universities, building joint laboratories with downstream enterprises, and jointly developing new technologies with scientific research institutions, is the initial stage where the employees and the Group share the opportunities to be deeply involved in innovation, thereby laying the foundation for the sustainable growth of the Group in terms of talent, academics and technology.

Diversified talents are the premise and basis for the establishment of presence in diversified sectors and markets. The Group's diversification strategy covers different technologies, multinational talents and domestic and overseas markets, and helps the Group effectively avoid the dependence on a single industry cycle and a single market, thereby building comprehensive competitive advantages. Meanwhile, the Group's advantages in diversification are developing dynamically, and are firmly bound to the needs of leading enterprises in downstream industries, thus creating a strong vitality and development energy of the Group.

GROWTH ENGINES IN THE FUTURE

Since the Listing, the Group has set up plans for new technologies and new products in the different sections of industry chain in the industries related to material innovation. Through the cooperation with domestic and overseas colleges and universities, the establishment of joint ventures, and internal incubation, the Group has launched a number of research projects in the front-end research and development of advanced biopharmaceuticals, micro-channel reactors, ultra-high-voltage industrial equipment, and composite current collector materials for lithium batteries. The mission of the Group's products is to continuously enable material innovation and support downstream enterprises to create a green world and healthy life together.

Making full use of existing domestic production capacity and developing overseas production capacity in an orderly manner will provide the Group the opportunity to continue for new heights in revenue and profit on the basis of its existing scale. The complementary production capacity of the Group at home and abroad will provide downstream customers, especially multinational companies, with the convenience in procurement, communication and service, and the flexibility in cooperation methods.

The rapid rebound in the demand of overseas markets in the post-pandemic era will turn into one of the driving forces for the continuous growth of the Group. The Group will target at the in-depth needs of overseas customers, make full use of high-quality resources in the international market and professional talents all over the world to strive to build the Group into a well-known international brand.

CORPORATE RESPONSIBILITY

In the course of development, the Group keeps in mind the three important goals of responsibility, profit and development, and is determined to create a harmonious and unrelenting working environment, satisfying and yet never-satisfied work goals, and a united and yet individualized workforce.

The COVID-19 pandemic in the last three years has made the Group more deeply aware of the importance of society, in particular the local communities, in the development of an enterprise. The Group has also given back to the society in various forms in the last three years, and actively participated in and mobilized its employees to participate in various social welfare and charity activities.

As the basic energies and raw materials of the world's economy, oil and natural gas have been used for more than 100 years. Since the 21st century, mankind has gradually realized that the excessive use of fossil energy has contributed to the current global warming phenomenon to a great extent. Meanwhile, the significant exploitation and consumption of other non-renewable resources, such as ore resources and soil resources, have also brought a heavy burden to the earth and the human society. The Group is committed to exploring and developing the technologies of renewable resources, degradable materials and reusable minerals, among which, technologies related to non-traditional sustainable energies (including biofuels, hydrogen energy and ammonia energy) will be one of the key directions for the Group's future development.

Last but not least, I would like to take this opportunity to thank all investors for their care and support for the Company in the past year, the members of the Board, management and all employees for their unremitting efforts and dedication, and the partners in various fields for their company and support, and express my congratulations to everyone that has become an important member witnessing the Group's performance hitting a new record high in 2022.

Nishimatsu Koei
Chief executive officer

DIRECTORS

Executive Directors

Mr. Nishimatsu Koei (西松江英), aged 58, is an executive Director. Mr. Nishimatsu is also our chief executive officer responsible for overseeing general management and daily operation of the Group. Mr. Nishimatsu also serves as chairman and general manager of Morimatsu China, director of Morimatsu Pharmaceutical Equipment, chairman of Morimatsu Heavy Industry and chairman of Morimatsu LifeSciences.

Mr. Nishimatsu has around 32 years of experience in pressure equipment industry. From April 1991 to November 2012, Mr. Nishimatsu served at Morimatsu Holdings. He joined Morimatsu Holdings as an officer of design department (設計部) and was promoted as the executive officer and the head of the overseas department (海外事業部) and was responsible for supervising the business expansion of Morimatsu Pressure Vessel in the PRC market. From March 2017 to March 2021, Mr. Nishimatsu was a director of Morimatsu Holdings but he did not participate in its day-to-day operations. From January 1998 to December 2009, Mr. Nishimatsu served at Morimatsu Pressure Vessel. He joined Morimatsu Pressure Vessel as an officer and was subsequently promoted as the general manager of Morimatsu Pressure Vessel and was responsible for general operation and management of client relationship maintenance. From January 2008 to December 2010, he served as the general manager of Morimatsu Chemical Equipment and was responsible for overseeing its production operations. Since October 2010, Mr. Nishimatsu has served as the general manager of Morimatsu China and is responsible for its daily management operations.

Mr. Nishimatsu obtained a bachelor's degree in chemical and mechanical engineering from East China University of Science and Technology (華東理工大學) in the PRC in July 1985. He subsequently obtained a master's degree in business administration from China Europe International Business School (中歐工商學院) in the PRC in July 2002. He was a recipient of the 2018 Magnolia Award (2018年白玉蘭紀念獎) issued by Foreign Affairs Office of the Shanghai Municipal People's Government (上海市人民政府外事辦公室) in September 2018.

Mr. Hirazawa Jungo (平澤準悟), aged 39, is an executive Director. Mr. Hirazawa is also our chief finance officer responsible for overseeing financial planning and control, accounting operations and internal control systems of the Group.

Mr. Hirazawa has around 15 years of experience in accounting, auditing and financial management. From April 2008 to March 2019, Mr. Hirazawa served at Juroku Bank Ltd (株式會社十六銀行) in Japan. He joined Juroku Bank Ltd as an officer and was subsequently promoted to a manager of the inspection department and was responsible for the management of corporate financing and financial compliance. In the periods from October 2014 to October 2017 and from April 2018 to March 2019, Mr. Hirazawa was seconded to Morimatsu Holdings (being the client of Juroku Bank Ltd) and served as an accounting manager and the principal of the chairman's office (董事長室室長), respectively, where he was principally responsible for the accounting, auditing, corporate governance, financial consolidation management and general financial management of Morimatsu Holdings. From April 2019 to June 2020, Mr. Hirazawa worked as a senior finance manager of Morimatsu Holdings and was responsible for overseeing the financial planning, budget management and the general financial management. Since March 2020, Mr. Hirazawa has served as the supervisor of Morimatsu T&S. Since June 2020, he has served as the supervisor of Morimatsu China. Since September 2021, he has served as the supervisor of Morimatsu LifeSciences. Since May 2022, he has served as the director of Morimatsu Houston. Since June 2022, he has served as the director of Morimatsu Holdings. Since January 2023, he has served as the director of Pharmadule Singapore.

Mr. Hirazawa obtained a bachelor's degree in business and commerce from Keio University (慶應義塾大學) in Japan in March 2008.

Mr. Tang Wei Hua (湯衛華), aged 53, is an executive Director responsible for overseeing production operations (pharmaceutical and family care industries) of the Group. Mr. Tang also holds directorship in Morimatsu Pharmaceutical Equipment, director and general manager of Morimatsu LifeScience, chairman of Morimatsu Biotechnology and chairman of Mori-Biounion Technology.

Mr. Tang has over 23 years of experience in pressure equipment industry. From July 1991 to May 1999, Mr. Tang worked as a pipeline engineer at Shanghai Petrochemical Installment and Maintenance Co., Ltd (上海石化安裝檢修工程有限公司) and was responsible for pipeline related technology support. In May 1999, Mr. Tang joined Morimatsu Pressure Vessel and has since worked in the Group. From May 1999 to May 2003, he was pipeline engineer (管道工程師) and head of pipeline team (管道組組長) at Morimatsu Pressure Vessel, and was responsible for providing technology support for pressure equipment production. In January 2003 Mr. Tang was appointed as the head of system engineering department (系統工程科科長) of Morimatsu Pharmaceutical Equipment and subsequently promoted as the general manager of Morimatsu Pharmaceutical Equipment since May 2008. Since September 2021, he has served as director and general manager of Morimatsu LifeSciences. Since January 2022, he has served as chairman of Morimatsu Biotechnology. In March 2022, he was elected as a council member by Shanghai Producer Services Promotion Association. Since May 2022, he has served as chairman of Mori-Biounion Technology.

Mr. Tang obtained a bachelor's degree in water supply and drainage engineering from the University of South China (南華大學) (formerly known as Hengyang Institute of Technology (衡陽工學院)) in the PRC in June 1991. He subsequently obtained a master's degree in business administration from Fudan University (復旦大學) in the PRC in July 2007.

Mr. Sheng Ye (盛曄), aged 48, is an executive Director responsible for overseeing production operations (chemical, oil and gas and raw materials of power battery industries) of the Group. Mr. Sheng also holds directorship and general manager in Morimatsu Heavy Industry and chairman and general manager of Morimatsu Engineering Technology.

Mr. Sheng has around 27 years of experience in pressure equipment industry. In October 1996, Mr. Sheng joined Morimatsu Pressure Vessel and has since worked in the Group. From October 1996 to October 2010, Mr. Sheng held various positions in Morimatsu Pressure Vessel, including development engineer (開發工程師), deputy chief of the sales department (銷售部副科長) and deputy head of technology department (技術部副部長), and was responsible for monitoring research and development of customised pressure equipment and overseeing sales and marketing operations. From October 2010 to February 2017, Mr. Sheng served at Morimatsu China. He joined Morimatsu China as a deputy head of technology department (技術部副部長) and was promoted as the head of technology department (技術部部長) and the principal of technology supporting centre (技術支持中心主任). Since October 2018, Mr. Sheng has served as the general manager of Morimatsu Heavy Industry and is responsible for supervising and management of sales, design and manufacture of new materials. Since November 2021, he has served as chairman and general manager of Morimatsu Engineering Technology.

Mr. Sheng obtained a bachelor's degree in chemical engineering equipment and mechanics (化工設備與機械) from East China University of Science and Technology (華東理工大學) in the PRC in July 1996. He subsequently obtained an executive master's degree of business administration from Nankai University (南開大學) in the PRC in July 2012. Mr. Sheng obtained a certificate of senior engineer (高級工程師證書) issued by Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) in December 2012.

Mr. Kawashima Hirotaka (川島宏貴), aged 52, is an executive Director responsible for production capacity guarantee and environmental, social and governance issues of the Group. Mr. Kawashima also holds directorship in Morimatsu China and Morimatsu Dialog, respectively.

Mr. Kawashima has around 27 years of experience in pressure equipment industry. From March 1996 to October 2003, Mr. Kawashima served at Morimatsu Holdings, where he served as an officer of quality control department and was promoted as a manager of overseas department thereof in October 2003. In October 2003, he was designated to serve Morimatsu China and has since served as the head of production department (生產部部長), the principal of the chairman's office (董事長室室長) and vice general manager of Morimatsu China. Since September 2021, he became a director of Morimatsu Dialog. Due to the internal organizational adjustment of Morimatsu China, he no longer served as the head of production department and principal of the chairman's office of Morimatsu China since January 2023.

Mr. Kawashima obtained a bachelor's degree and a master's degree in metallurgical engineering from Iwate University (岩手大學) in Japan in March 1993 and March 1995, respectively. Mr. Kawashima also obtained a master's degree in business administration from China Europe International Business School (中歐工商學院) in the PRC in August 2014.

Non-executive Director

Mr. Matsuhisa Terumoto (松久晃基), aged 59, is a non-executive Director. Mr. Matsuhisa is also the chairman of our Board responsible for supervising the overall strategic planning of the Group but is neither working on a full-time basis with the Group nor otherwise involved in the daily operation and management of the Group. He is one of our Controlling Shareholders. He is also the Chairman of the nomination committee and a member of the audit committee and remuneration committee of our Board.

Mr. Matsuhisa has over 37 years of experience in business operation and corporate management. After graduation in March 1986, Mr. Matsuhisa commenced his career with Morimatsu Holdings. He then served from January 1989 to January 1992, as a chief of corporate planning department (經營企劃室長) of Morimatsu Holdings, and from January 1992 to September 1993, as a head of the overseas business department (海外事業部部長) and the director thereof. Mr. Matsuhisa was appointed as the general manager of Morimatsu Pressure Vessel in September 1993 and subsequently as the executive vice president thereof in November 1997. Since August 2013, Mr. Matsuhisa ceased his management position in Morimatsu Pressure Vessel. Mr. Matsuhisa is currently the executive director and chief executive officer of Morimatsu Holdings and holds various positions in the subsidiaries of Morimatsu Holdings (other than the Group).

Mr. Matsuhisa obtained a bachelor's degree in electronics engineering from Waseda University (早稻田大學) in Japan in March 1986.

Independent Non-executive Directors

Ms. Chan Yuen Sau Kelly (陳遠秀), aged 52, was appointed as our independent non-executive Director on 10 February 2021. Ms. Chan is responsible for supervising the management of the Group and providing independent judgment to our Board. She is also the chairperson of the audit committee and a member of the remuneration committee of our Board.

Ms. Chan has around 31 years of experience in auditing and accounting. From July 1992 to September 2001, Ms. Chan served at Deloitte Touche Tohmatsu and was responsible for provision of auditing and management advisory services to listed companies. From October 2001 to August 2007, Ms. Chan was a director and financial controller of Heineken Hong Kong Limited (喜力香港有限公司) ("**Heineken HK**"), a beer manufacturer, where she was responsible for the financial management and accounting functions. Heineken HK was then a subsidiary of Heineken N.V. (Stock code: HEIA) and is currently a subsidiary of China Resources Beer (Holdings) Company Limited (華潤啤酒(控股)有限公司) (Stock Code: 291) (a company principally engaged in the manufacture and sales of beer whose shares are listed on the Stock Exchange). From August 2007 to October 2018, Ms. Chan served at Moet Hennessy Diageo Hong Kong Limited (酩悦軒尼詩帝亞吉歐洋酒香港有限公司) ("**MHD HK**") with the last position as the finance director. MHD HK is a subsidiary of LVMH Moët Hennessy Louis Vuitton SE (stock code: MC) (a company principally engaged in provision of high quality products in luxury market whose shares are listed on the Euronext N.V.). In October 2018, Ms. Chan established Peony Consulting Services Limited in Hong Kong (which is principally engaged in provision of business advisory services), and has since served as its managing director.

As at the date of this annual report, Ms. Chan is an independent non-executive director of Aluminum Corporation of China Limited* (中國鋁業股份有限公司) (stock code: 2600) and China Merchants Port Holdings Company Limited (招商局港口股份有限公司) (stock code: 0144), whose shares are both listed on the Stock Exchange.

Ms. Chan obtained a bachelor's degree in accountancy from the City Polytechnic of Hong Kong (香港城市理工學院) (currently known as City University of Hong Kong (香港城市大學)) in November 1992. Ms. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants ("**ACCA**") and the Hong Kong Institute of Directors.

Ms. Chan was the President of ACCA Hong Kong in 2008–2009 and was the President of the Association of Women Accountants (Hong Kong) in September 2020–September 2021. She is currently the member of the Board of the Association of Women Accountants (Hong Kong). In October 2020, Ms. Chan was appointed as a Justice of the Peace by the HKSAR Government in recognition of her remarkable public services and contribution to the community. In March 2022, Ms. Chan was awarded with ACCA's Advocacy Award 2021 for the China region in recognition of her relentless support for the accountancy profession, encouraging others and embodying ACCA's values: inclusion, integrity and innovation.

Mr. Kanno Shinichiro (菅野真一郎), aged 79, was appointed as our independent non-executive Director on 10 February 2021. Mr. Kanno is responsible for supervising the management of the Group and providing independent judgment to our Board. He is also a member of the audit committee and nomination committee of our Board.

Mr. Kanno has over 57 years of experience in the financial and banking industry. From April 1966 to March 2002, Mr. Kanno worked at the Industrial Bank of Japan Ltd ("**IBJ**") and held various positions, including counselor of several branch offices in Japan, manager and the chief representative of the Shanghai branch office, the director and chairman of the Chinese committee (中國委員會), and the executive director and senior counselor of IBJ, and was principally responsible for developing new financial products, analyzing financial policies, and facilitating and monitoring the expansion of the financial services of IBJ in the PRC market. In April 2002, IBJ and two other Japanese banks merged into a new entity, namely, Mizuho Financial Group (株式会社みずほフアイナンシャルグープ) ("**MF**") whose shares are listed on several stock exchanges, including the Tokyo Stock Exchange (stock code: 8411) and the New York Stock Exchange (stock code: MFG), and he then served from April 2002 to August 2002 as the chief executive officer of Mizuho Human Service Ltd, a subsidiary of MF in Japan, and from September 2002 to August 2012 as an advisor of Mizuho Bank Ltd (瑞穗銀行有限公司), a subsidiary of MF in Japan. From September 2012 to March 2023, he served in the Tokyo International University (東京國際大學) and is currently a distinguished professor (formerly referred to as adjunct professor) thereof. Since June 2021, he has held the position of supervisor of Toyodenso Co., Ltd. (東洋電裝株式會社, a non-listed company).

Mr. Kanno obtained a bachelor's degree in economics from Yokahama National University (橫濱國立大學) in Japan in March 1966.

Mr. Yu Jianguo (于建國), aged 62, was appointed as an independent non-executive Director on 10 February 2021. Mr. Yu is responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee of our Board.

Mr. Yu has over 24 years of experience in chemical and environmental protection industries. Mr. Yu is a tutor of East China University of Science and Technology (華東理工大學) ("**ECUST**") for doctoral candidates. He had served a number of roles and positions in different departments of ECUST, including the director of its science and technology department (華東理工大學科技處處長), the director of its national technology transfer centre (華東理工大學國家技術轉移中心), the dean of its college of resources and environmental engineering (華東理工大學資源與環境工程學院院長), the vice-president (副校長) and the dean of its post-graduate school (研究生院) of ECUST. Mr. Yu is also currently the director of the National Salt Lake Resources Comprehensive Utilisation Engineering Technology Research Center of ECUST (華東理工大學國家鹽湖資源綜合利用工程技術研究中心), the director of the National Environmental Protection Key Laboratory of Chemical Process Risk Assessment and Control (國家環境保護化工過程風險評價與控制重點實驗室), and the director of the Resource Process Engineering Research Center of the Ministry of Education (教育部資源過程工程研究中心). Academic part-times of Mr. Yu include the deputy director of Inorganic Salt Professional Committee of China Chemical Industry Association (中國化工學會無機鹽專業委員會), and the vice-chairman of Shanghai Chemistry and Chemical Industry Association (上海市化學化工學會). Mr. Yu is also an expert in the field of resources and environment in the "11th Five-Year Plan" period of the National 863 Programme (國家863計劃) and an expert in the subject-matter experts of "12th Five-Year Plan" resources, and a member of the Second Science and Technology Committee of the Ministry of Education (教育部科技委).

As at the date of this annual report, Mr. Yu is a non-executive director of Ganfeng Lithium Co., Ltd (江西贛峰鋰業股份有限公司) (stock code: 1772), whose shares are listed on the Stock Exchange.

Mr. Yu obtained a bachelor's degree and a master's degree in inorganic chemical engineering from East China Institute of Chemical Technology (華東化工學院) (being a predecessor of ECUST) in the PRC in July 1982 and in July 1987, respectively. Mr. Yu also obtained a doctor's degree in chemical engineering from ECUST in the PRC in July 1998.

SENIOR MANAGEMENT

Mr. Nishimatsu Koei. Please refer to the paragraphs headed "-Directors-Executive Directors" above in this section for details of biography of Mr. Nishimatsu.

Mr. Hirazawa Jungo. Please refer to the paragraphs headed "-Directors-Executive Directors" above in this section for details of biography of Mr. Hirazawa.

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap (李凱納), aged 38, was appointed as a joint company secretary of the Company on 25 September 2020. Mr. Lee has over 14 years of experience in the accounting and financial management industry. He is a chartered secretary and a member of both The Hong Kong Chartered Governance Institute ("**HKCGI**") (formerly known as "The Hong Kong Institute of chartered secretaries") and The Chartered Governance Institute ("**CGI**") (formerly known as "The Institute of Chartered Secretaries and Administrators") in the United Kingdom of Great Britain and Northern Ireland ("**UK**"). In February 2009, Mr. Lee joined Morimatsu Holdings as a management trainee and was assigned to a job rotation. From February 2009 to July 2010, Mr. Lee served as an accountant of Morimatsu Holdings and was responsible for account management. From July 2010 to June 2016, Mr. Lee was designated as a financial manager of Morimatsu China and was responsible for overseeing financial analysis, feasibility study, accounting and financial compliance. From June 2016 to November 2017, Mr. Lee served as the chief finance officer of Pharmadule Sweden and was responsible for financial planning and financial risk management. From November 2017 to June 2020, Mr. Lee was designated as the financial manager of Morimatsu Holdings and was responsible for collection and reporting of financial and accounting information of our overseas companies to Morimatsu Holdings. Since June 2020, for purpose of the Listing, Mr. Lee was designated back to the Company as a manager and is responsible for management of accounting and compliance matters. Mr. Lee obtained a dual bachelor's degree in laws and commerce from the University of New South Wales in Australia in August 2007. He subsequently obtained a master's degree in professional accounting and corporate governance from the City University of Hong Kong in Hong Kong in October 2017. Mr. Lee was admitted as a lawyer of the Supreme Court of New South Wales in February 2015 and was also admitted as a certified practising accountant from the Australian Society of Certified Practising Accountants in December 2018.

Ms. Lau Wai Yee (劉惠儀), aged 57, was appointed as a joint company secretary of the Company on 25 September 2020. Ms. Lau is a director of Immanuel Consulting Limited, a licensed company service provider specialising in integrated business and corporate services. Ms. Lau has over 35 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Her expertise extends from corporate advisory and regulatory compliance, corporate restructuring to dissolution of companies. Ms. Lau is a chartered secretary and a fellow of both HKCGI and CGI in the UK and fellow of The Hong Kong Institute of Directors. Ms. Lau has been appointed as the company secretary of Shanghai Realway Capital Assets Management Co., Ltd., the shares of which are listed on the Stock Exchange (stock code: 1835) since 13 October 2019.

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years. The financial information for the years ended 31 December 2022 is extracted from consolidated financial statements in this Annual Report. The financial information for 2018 to 2021 were restated accordingly due to the completion of acquisition of 100% equity interest in Morimatsu Houston on 28 February 2022.

	For the year ended 31 December				
RESULTS	2018 RMB'000 (restated)	2019 RMB'000 (restated)	2020 RMB'000 (restated)	2021 RMB'000 (restated)	**2022** **RMB'000**
Continuing operation					
Revenue	2,474,319	2,826,380	2,983,045	4,286,222	**6,486,277**
Gross profit	519,274	602,939	851,169	1,183,583	**1,793,386**
Profit before taxation	178,782	166,332	341,815	449,143	**760,917**
Profit from continuing operations	147,103	141,240	289,756	381,838	**666,182**
Discontinued operations					
Profit/(loss) from discontinued operations	(20,667)	5,673	—	—	**—**
Profit/(loss) for the year	126,436	146,913	289,756	381,838	**666,182**
Profit/(loss) for the year attributable to					
Equity shareholders of the Company	116,872	149,398	289,756	381,838	**669,266**
Non-controlling interests	9,564	(2,485)	—	—	**(3,084)**
	126,436	146,913	289,756	381,838	**666,182**

	As at 31 December				
FINANCIAL POSITION	2018 RMB'000 (restated)	2019 RMB'000 (restated)	2020 RMB'000 (restated)	2021 RMB'000 (restated)	**2022** **RMB'000**
Total assets	3,674,319	3,280,177	3,041,801	5,704,508	**7,960,582**
Total liabilities	2,565,350	2,574,222	2,044,526	3,696,699	**5,137,936**
Net assets	1,108,969	705,955	997,275	2,007,809	**2,822,646**
Attributable to equity shareholders of the Company	1,068,079	705,955	997,275	2,007,809	**2,815,730**
Non-controlling interests	40,890	—	—	—	**6,916**
Total equity	1,108,969	705,955	997,275	2,007,809	**2,822,646**

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.

Diversified product forms aiming to enable downstream players with value: MVP model

The unique competitiveness of the Group is derived from its ability to serve the continuous innovation needs of different industries, and meet the customized requirements of customers in diversified forms, from a single piece (set) of equipment to total solutions, to provide products and services to customers at different stages of technological innovation.

M + V + P

Digital intelligence total engineering solutions

Maintain core equipment advantages
Enhance value-added service capabilities
Modular integration of products and services

Machines

Core equipment

Plants

Integrated process solutions and plants

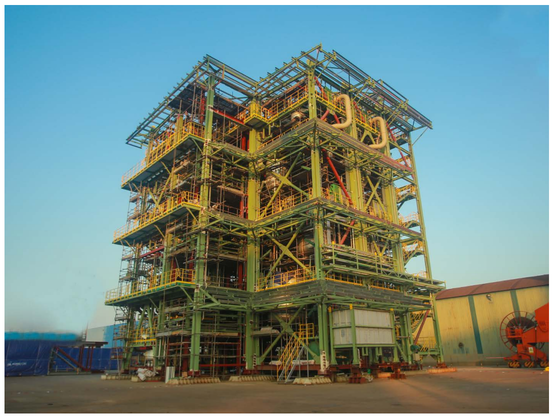
Values

Value-added services

MVP Product Strategy

Machines – Core equipment: Designed to achieve theoretical heat transfer and mass transfer effects in large-volume equipment, the core equipment aims to realize a synthesis process of new materials that is based on theory and is feasible at the level of laboratory practice under process-level production scale. Such equipment mainly comprises the reactors in the production units for different downstream products, including but not limited to bioreactors (applied in the field of biopharmaceuticals), oxidation reactors (applied in the chemical industry), protein and microbial fermentation tanks (applied in the industry/field of biopharmaceuticals and family care), hydrogenation reactors (applied in the oil and gas industry), fused salt reactors (applied in the chemical industry), vapor deposition reactors (applied in the field of photovoltaic and semiconductor raw materials) and high-pressure acid leaching autoclaves (applied in the field of raw materials of power battery).

Values – Value-enablement: The Group understands the deep needs of downstream industries, and, in addition to physical products, provides customers with various forms of support services and other services customized based on individual needs, including modular solutions, devices for industrialized small-scale tests and pilot tests and desktop solutions, to help customers achieve optimal configuration in terms of technical feasibility, cost optimization and delivery methods, while reducing management and communication interfaces during project execution, simplifying project execution processes and reducing execution risks. Looking into the future, the Group will work with customers to promote device improvement and technology upgrading, and application scenarios include modular overseas engineering centers in the field of raw materials of power battery and pilot production devices for ternary cathode materials, complete sets of process equipment in the industry/field of family care and biopharmaceuticals, process modular products for the oil and gas and chemical industries, and complete solutions for the electronic chemicals industry.



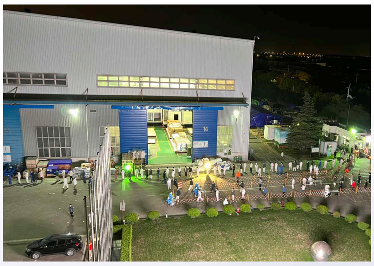
Plants – Highly integrated system solutions: This is an ultimate industrial product that directly addresses the needs of customers to realize the commercial production of their important products, and provides one-stop (front-end services + physical products + back-end services) systematic solutions, covering the whole process from process design, plant design to core process equipment delivery, system manufacturing/installation/commissioning/certification, and to operation and maintenance management and continuous optimization. Such business model can cover the entire life cycle of specific products and technologies, and strengthen the interconnection between upstream and downstream players, maximize the viscosity of the Group and its customers, and take advantage of the continuous innovation needs of customers to continuously update and iterate the products and technologies of the Group. According to customer needs, one-stop systematic solutions can be compatible with regulations and industry standards of various countries to achieve in-factory manufacturing to the greatest extent, enjoys unique advantages in supply chain stability, project economy and delivery security, and can help customers quickly deploy production capacity around the world, commercialize new technologies and promote the timely launch of new products. The Group's experience and advantages in the design and manufacture of multi-field core equipment and in the implementation of overseas projects for years have further enhanced the reliability of systemic solutions. The application scenarios of systemic solutions include modern biopharmaceutical factories, family care product factories, and production equipment for fine chemical products and raw materials of power battery.

The three product strategies under the MVP model respectively correspond to the different needs of downstream enterprises in the different stages of innovation process. The multi-level product strategy can concentrate the Group's resources on the industries and products with the highest return rate under the condition of limited production capacity. Through the exchange and cooperation on technological updates and product iterations, the Group has managed to achieve deep binding with industries and customers at the vertical level of corporate development; and at the horizontal level, the Group can rapidly expand the cooperation areas with downstream industries. Through the cooperation with leading enterprises in various industries, the Group has rapidly promoted its products worldwide, which has produced a demonstration effect at the same time, thereby attracting the attention of other customers of the same type.

The MVP strategy is a dynamic strategy in line with the cyclical development of technologies and products in downstream industries, and is always attached to the innovation needs of leading enterprises in various industries, while simultaneously enabling the self-development and evolution of the Group. It not only presents the Group's diversified product forms, but also represents the Group's market competition strategy. Meanwhile, by providing a guarantee for corporate survival and development in respect of different products in different downstream markets in addition to product quality, market reputation and global layout, it can avoid low-cost imitation and homogeneous competition to the greatest extent.

During the Reporting Period, under the leadership of the Board and the management, the Group actively responded to various situations caused by the 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 ("**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 RMB'000	Proportion	The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts RMB'000	Proportion
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 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 ("**Russia**") 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 has 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 ("**PBAT**")), and sizable domestic and overseas capital investment projects related to these two fields.

PRINCIPAL SECTORS AND CORE PRODUCTS

During the Reporting Period, in response to the diversified needs of the downstream market, the Group implemented flexible and diversified market strategies oriented to service value and downstream enablement through various ways including the combination of individual equipment and solutions, the integration of products and services, the complementation of hardware and software, and the combination of participating in specific projects and joint downstream research and development. The Group's diversity strategy covers different technologies, talents from various countries and domestic and overseas markets, which helps the Group effectively avoid the dependence on a single industry cycle and a single market, and establish comprehensive competitive advantage. Adhering to the themes of healthy life, circular economy, non-traditional energy, and material innovation, the Group has achieved historic breakthroughs and innovative applications of technologies in various sectors, with outstanding performance recorded in the following sectors:

Pharmaceuticals (including biopharmaceuticals)

During the Reporting Period, orders and revenue from the pharmaceutical (especially biopharmaceutical) sector still maintained a steady growth, with the increases mainly coming from (1) overseas orders; (2) total solutions (such as modular factories); (3) domestic and overseas CDMO expansion projects; (4) supporting products for disposable bio-reactor systems; and (5) production process lines and core equipment for antibody products and recombinant protein products.

- **Overseas orders**

  The recovery of the pharmaceutical (especially biopharmaceutical) industry in overseas markets since the second half of 2021 brought a relatively significant amount of revenue to the Group during the Reporting Period, mainly benefiting from the orders for modular factories and complete sets of process equipment brought about by the overseas projects of international leading pharmaceutical companies, the overseas projects of leading domestic innovative drug companies and capital expenditure projects for biomedical safety in developing countries.

  During the COVID-19 pandemic, the demand for various types of vaccines and other biopharmaceuticals of high efficacy in various countries, especially in developing countries, increased significantly, which, in turn, led to an increase in the independent demand from the supply chain for advanced biopharmaceuticals. As such, various investment projects for advanced biopharmaceuticals were seen in various countries, promoting the business growth of the Group in this field.

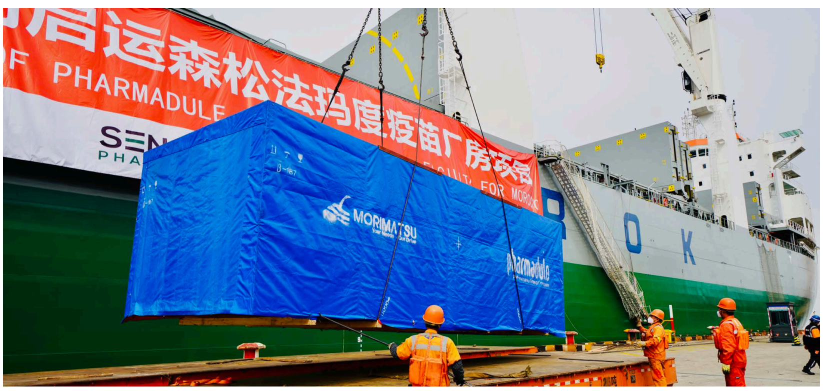
In recent years, the patents for "star medicines" of many leading multinational pharmaceutical companies in the world will gradually expire. In response to the upcoming "patent cliff" crisis, many companies have begun to actively establish presence in new pipelines and new therapies, which has brought a great number of capital expenditure projects. Meanwhile, these leading companies are also actively balancing their production capacity and product competitiveness in different regions, and intending to carry out localized production to a greater extent, as a result of which, the demand for capital expenditure projects has taken on a trend of steady growth.

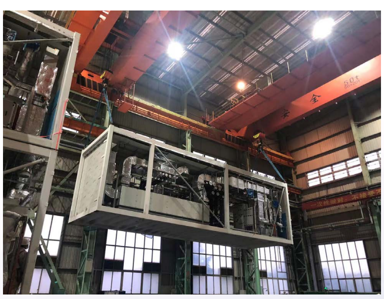
- **Total solutions (modular factories)**

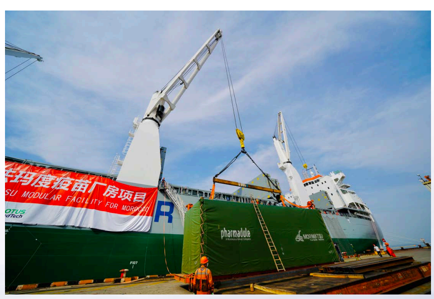
For a long time, as an important product form of the Group, modular factory products have been applied in various fields represented by biopharmaceuticals. The Group's global resources, including the technical centers in Europe, the engineering centers in Asia (India, Japan and China), the advanced manufacturing capabilities in China, and the service teams all over the world, have enabled the Group to provide one-stop engineering solutions compatible with the standards in various countries and various industry requirements, thereby helping customers complete the design, construction, installation, commissioning and certification of modern pharmaceutical factories in a short period of time.

The recovery and acceleration of capital expenditure projects in the global pharmaceutical market has caused various countries to face difficulties such as rising construction costs, insufficient labor resources, scarcity of skilled labor, and project delivery under market expectations, causing the relationship between supply and demand to tilt further towards the supply side. The Group's modular factory solutions can not only effectively solve the aforesaid problems, but also provide customers with greater certainty in terms of the quality of factory construction, technical performance and deployment flexibility.

During the Reporting Period, the Group delivered the first advanced biopharmaceutical factory in Africa (located in Morocco) through a total modular solution, and also undertook modular factory projects from other countries in the Americas and Africa.







- **Domestic and overseas CDMO expansion projects**

  During the COVID-19 pandemic, the global pharmaceutical industry chain had achieved structural reorganization to a certain extent, and CDMO has become the preferred form of research and development and production of new medicines for many pharmaceutical companies. While maintaining the market competitiveness of existing products, these pharmaceutical companies also launched a great number of capital expenditure projects involving new pipelines and new production capacity, thus driving the expansion and new construction of CDMO production capacity in China and overseas.

  The CDMO industry has always been the focus of the Group, and the cooperation with leading domestic and overseas CDMOs (including biological medicines and chemical synthetic medicines) has been going on for many years. At a time when relevant companies are actively responding to market demand and rapidly expanding production capacity (especially the deployment of global production capacity), the Group's large-volume bioreactors, complete sets of equipment, process systems, and modular factories will become efficient solutions, enabling CDMOs to quickly realize production with guaranteed quality.

- **Production process lines and core equipment for antibody products and recombinant protein products**

  During the Reporting Period, downstream production expansion projects from antibody and recombinant protein manufacturers made key contributions to the Group's performance growth in the biopharmaceutical field, including the important orders from leading international pharmaceutical enterprises, domestic leading CDMOs and domestic leading innovative pharmaceutical enterprises.

- **Supporting products for disposable bio-reactor systems**

  During the Reporting Period, the Group further increased the efforts on the marketing of disposable bio-reactor systems and their supporting products, and made achievements in respect of equipment, mixing bags and other consumables.

By taking advantage of existing customer resources, long-term technical reserves and close cooperation with relevant professional companies, the Group further expanded the market for disposable bio-reactor systems and strived to move forward in the biopharmaceutical industry chain to provide products, services and related consumables including miniaturized and desktop solutions in the market.

Raw materials of power battery

As a supporting industry for the non-traditional energy industry, the demand for the raw materials of power battery remained stable in 2022, and the Group's orders on hand increased year-on-year. The Group's product lines in this field are becoming more diversified, including in terms of markets and product types, than that in the past. The raw materials of power battery market is still worth looking forward to in 2023.

- **Nickel extraction**

  During the Reporting Period, the Group provided a variety of products for a number of domestic and overseas nickel extraction projects, including core equipment, complete sets of equipment and engineering solutions. Nickel ore is an important source material for lithium battery projects, which have a long investment period, large investment amount and continuous investment demand. Therefore, the Group has reached cooperation agreements with several leading enterprises in the industry to jointly establish strategic partnerships and continuously provide high-value products for their domestic and overseas investment projects.

- **Ternary cathode materials**

  During the Reporting Period, the Group provided various forms of products for the leading enterprises in downstream industries, including pilot test devices for ternary precursors, production devices for ternary cathode materials and sintering devices for ternary cathode materials, as well as process assurance and operation and maintenance support in addition to equipment and engineering solutions.

- **Electrolytes, additives, binders and solvent recovery**

  During the Reporting Period, the Group continued to deliver several sets of configuration devices for electrolytes, production devices for additives (including lithium difluorophosphate, lithium hexafluorophosphate, sodium hexafluorophosphate and lithium bisfluorosulfonimide) and recovery devices for NMP (N-methylpyrrolidone) solvents.

Oil and gas and chemicals

In 2022, due to the changes in the international political and economic environment, the demand for traditional energies, including oil and natural gas, increased significantly. As traditional business sectors, the Group has a solid technical foundation, a professional talent team and rich experience in international projects in the fields such as offshore and onshore oil and gas. Therefore, when the market demand reappeared, the Group managed to respond promptly and provided products in the form of core equipment, process systems and modular solutions to various international markets in the Middle East, South America, Oceania and Southeast Asia. The application scenarios of the Group's products include the development projects of offshore and land oil and gas field, offshore platform projects and onshore refinery projects, and most of the customers are internationally renowned oil and gas companies and general engineering contractors.

During the Reporting Period, the chemical industry, as a traditional sector, was still one of the Group's important sources of income. In addition to domestic and overseas capital expenditure projects of multinational companies, the Group also participated in new facility projects for bulk chemical materials such as terephthalic acid, acrylonitrile-butadiene-styrene copolymer, acetic acid, acrylic acid and polyvinyl chloride, as well as multiple sets of production devices for environmentally friendly plastics such as PLA, PHA and PBAT raw materials, where the main product types provided by the Group were core equipment and modularized complete sets of equipment. During the Reporting Period, the Group provided the world's first set of modular polyurethane dispersion production device to the domestic manufacturing base of a well-known international chemical company, and the concept, form and design of such product are expected to be rolled out at its manufacturing bases around the world. In addition, the Group also provided a POE pilot test device for a leading enterprise in the chemical industry to help it realize the rapid popularization of photovoltaic film materials.

Electronic chemicals

- **Photovoltaic industry (production of silicon materials)**

  During the Reporting Period, the Group keenly observed and made effective use of the new round of investment cycle in the photovoltaic industry, and acquired a great number of orders in a short period of time by virtue of the technological advantages and industry position established since 2007. The main products provided by the Group were various types of high-yield, low-energy-consumption vapor deposition reactors (chemical vapor deposition ("**CVD**") reduction furnaces), complete sets of reaction equipment (skid-mounted and modular reduction furnaces) and auxiliary equipment, the main application of which is to convert trichlorosilane into polysilicon materials of high purity. During the Reporting Period, the Group successfully achieved a historical breakthrough and exported CVD reduction furnace products overseas for the first time.

- **Electronic-grade chemicals of high purity (related to the semiconductor industry)**

  During the Reporting Period, the Group provided industry leaders in China and North America with products including process modules, process equipment and supporting materials, which are mainly used in the production of chemical reagents of high purity, including PPT-grade sulfuric acid, hydrogen peroxide, special gases (such as tritiated ammonia) and photoresist products (color photoresist), all being important supporting industry products for the development of independent semiconductor industry chains in major economies.

Family care

During the Reporting Period, the COVID-19 pandemic gradually came to a turning point, and the recovery of demand in the international consumer market drove the activity of the family care industry. The main income of the Group in this industry still came from the new overseas capital expenditure projects of international leading enterprises in this industry, and the main product form is the complete sets of production equipment for process modules.

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, 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.

Nantong Manufacturing Base

Changshu manufacturing base project

During the Reporting Period, the Group's high-end equipment manufacturing base project of Morimatsu LifeSciences 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.

Changshu Manufacturing Base (Design Rendering)

Malaysia manufacturing base

During the Reporting Period, Morimatsu Dialog, 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, 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).

INNOVATIVE THINKING AND CORPORATE COMPETITIVENESS

Serving innovation and commitment to innovation are the sources of motivation for the Group to maintain long-term competitiveness and continuous performance growth. Since the Group mainly serves the innovation needs of downstream industries, it needs to have the capabilities in both software and hardware to support downstream innovation, including forward-looking strategic layout, sound research and development system and diversified and application-oriented talent team and production capacity.

During the Reporting Period, the Group devoted itself to the research and development of non-traditional energies, new semiconductor materials and technologies and products related to new materials, including but not limited to the following fields:

(1) Core production equipment for green degradable materials;

(2) Core production equipment for the new generation of solar cell technology;

(3) Core production equipment and complete solutions for biofuel technology;

(4) Core production equipment and complete solutions for advanced positive and negative materials for lithium battery;

(5) Technologies and products related to green energies (such as hydrogen energy and ammonia energy);

(6) Others.

The Group provides full support for original technical teams and new product research teams, including resource allocation, technology sharing, platform establishment and the realization of new business incubation. During the Reporting Period, the Group had established several internal incubation platforms in the form of internal entrepreneurship, which are mainly engaged in the fields closely relevant to the principal businesses of the Group, such as the development of new materials, and the research and development of biopharmaceuticals and advanced industrial equipment, based on the demand for new products in downstream industries. During the Reporting Period, the team engaged in the research and development of disposable bio-reactor systems had registered and established a company, which will gradually contribute to the performance.

As a provider of non-standard products and solutions, the Group's development stemmed from its ability to serve the dynamic needs of downstream industries, which includes how to keep in line with customers' technology updates and product iterations at different stages, including the forms of joint research and development, enterprise-university-institute cooperation and independent product innovation, to keep in pace with the continuous evolution of downstream industries with its own continuous evolution.

In addition to product intrinsic attributes such as quality, price, and delivery period, the development of corporate competitiveness also lies in dynamic learning capabilities, broad market vision, diverse development paths, and rich future elements. The development moat strategy established by the Group is derived from the following aspects:

(1) Innovative ability to serve multiple downstream sectors at the same time;

(2) General-purpose hardware capacity that serves the needs of multiple industries at the same time;

(3) Design and engineering management capabilities to meet different national and industry standards;

(4) Design, manufacture and improvement capabilities for the core equipment in different industries;

(5) Digital technologies covering the entire life cycle of a project (digital design/manufacturing/delivery/operation and maintenance);

(6) An open mind for development and an international business team.

EXPECTATION MANAGEMENT FOR ORDERS AND REVENUE

The Group's revenue mainly comes from (1) the capital expenditure construction projects; (2) the equipment update and technical transformation projects; and (3) the operation and maintenance projects in downstream industries, such as the provision of spare parts for equipment operation, simple engineering transformation and other paid services. During the Reporting Period, the amount of the Group's new orders was approximately RMB9.356 billion, representing a year-on-year increase of approximately 40.60%, of which domestic and overseas orders accounted for 56.73% and 43.27%, respectively.

Capital expenditure projects are characterized by large amounts and long periods, and the value of a single contract is generally more than RMB50 million. The product types involved include core equipment, complete sets of equipment, modular equipment, and total engineering solutions, and the application scenarios are generally the duplication and expansion of the production devices for new products and existing industrial devices in downstream industries. The Group has a strong forward-looking ability for the actual needs and implementation time of capital expenditure projects. Given that the client's internal assessment and decision-making process and external review process (such as environmental impact assessment, administrative approval and financing) require a long period of time, so the Group participates in various forms from the feasibility study stage of downstream customers, including providing collaborative feasibility studies (business and technology assessment), joint research and development, and design of key equipment and process routes.

The successful delivery of capital expenditure projects indicates that the Group has a good perspective on business volume and good sensitivity to the prosperity of downstream industries, and that the Group has a good control over production capacity requirements, capital planning and growth expectations.

For customers who are not yet in the capital investment cycle, the Group maintains a good cooperative relationship with them by providing equipment update and technical transformation projects as well as operation and maintenance projects, and takes these projects as the opportunities for pre-sale services for their potential capital expenditure projects, thereby creating a service platform covering full life cycle of a certain technology and product and further improving customer viscosity.

Capital Expenditure (Major Investment) Project Cycle of Downstream Industries

Different Stages (for reference)

Feasibility Study Stage

1. Assist clients in conducting commercial and technical feasibility studies on potential projects
2. Provide cost, cycle and technical feasibility assessment according to the needs of customers
3. Can provide joint research and development, technical support and other forms of pre-sales services

Front End Engineering Design (FEED) Stage

1. Provide preliminary technical solutions
2. Provide corresponding quotations and estimated delivery dates
3. Can continue to provide joint research and development, technical support and other forms of pre-sales services

Purchasing Stage

1. Determine prices
2. Determine delivery dates
3. Sign technical agreements
4. Determine commercial terms
5. Determine prices of main raw materials

Contract Award

1. Determine contract execution mechanism
2. Kick-off
3. Generate cash flows (receipts in advance)
4. Purchase main raw materials

Follow-up Process for Capital Expenditure Projects

TALENT STRATEGY — INVESTMENT, CONSTRUCTION AND DEVELOPMENT WITH AN INTERNATIONAL VIEW

Talents are the most valuable wealth of the Group, and the investment in talents is the most important investment of the Group. "Investment", "Construction" and "Development" are the three keywords of the Group's talent strategy. The Group has a complete internal training and career development system as well as employee care policies. For details, please refer to the "Environmental, Social and Governance Report" section of this annual report.

During the Reporting Period, the Group employed 4,142 people, of which over 2,100 were in engineering and technical management, including 521 research and development personnel.

The Group continuously selects and sends outstanding technical personnel to internationally renowned universities to study for doctoral degrees, who will conduct research on special topics related to the Group's business, and realize the benefits of individuals, enterprises, and universities through the integration of production, education and research.

The research and development team of the Group continued the research and development activities in the fields of industrial material circulation system, semiconductor material technology, microfluidic control system, industrial automation system, and new vaccine production system in various forms, including the establishment of joint laboratories with downstream enterprises, joint development projects with well-known universities, and internal independent innovation.

During the Reporting Period, the Group continued to provide support for internal entrepreneurial teams, and provided platform-based incubation services on the basis of opening up and sharing resources and markets to promote the development of new products and technologies, covering such fields as new materials, biopharmaceuticals, advanced industrial equipment and industrial automation technology. Among them, the entrepreneurial team on the development of disposable bio-reaction technology and related products had acquired the status of a legal person with the establishment of a subsidiary of the Company.

The Group's overseas subsidiaries continued to employ outstanding local professionals, which has strengthened the Group's integration with overseas markets, enriched the Group's international technology sources, and ultimately enhanced the comprehensive competitiveness of the Group's products in the global market.

FUTURE OUTLOOK

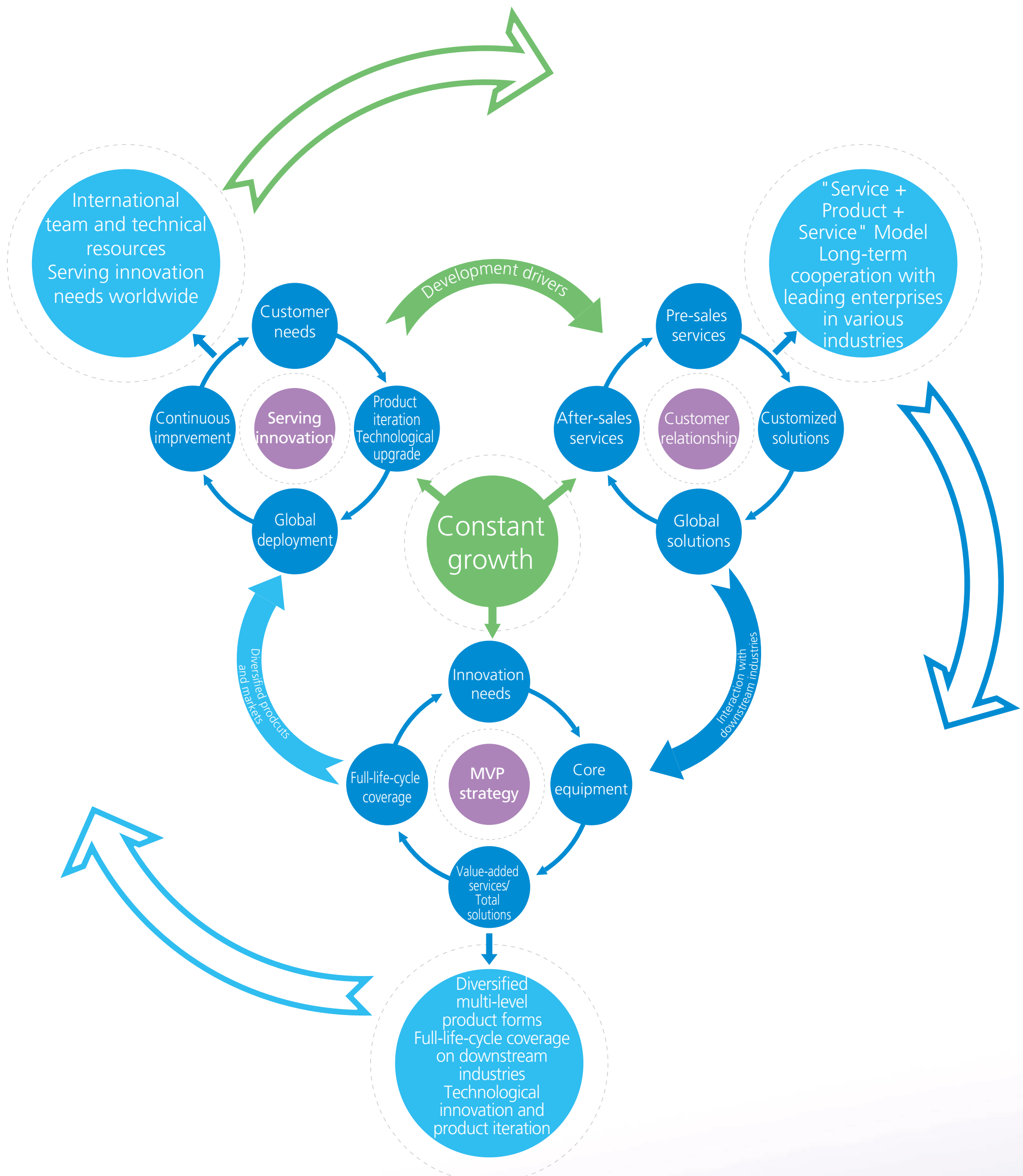
Looking back upon the various achievements made by the Group during the Reporting Period, they are all affirmations and rewards for the successful strategic layout of the Group in different historical stages and fields, including, among others:

(1) Taking service innovation as the main development path of the Group, so as to avoid homogeneous competition caused by a minimizing and single development model;

(2) Reasonable planning of production capacity. The Group insists that the development of hardware production capacity must not only meet the business growth needs of the Group, but also match the development pace of human resources, so as to avoid the low-profit operation mode of "orders are restricted by production capacity and growth serves production capacity"; meanwhile, it moderately develops overseas hardware production capacity, to serve specific requirements from customers in special markets;

(3) Keeping the balanced development in domestic and overseas markets, and actively deploying overseas technical centers, engineering centers and service centers to provide diversified products and support services covering the entire life cycle of products for the global development of multinational companies;

(4) Operating in multiple sectors, focusing on popular sectors, taking the pursuit of best return as the basis for resource allocation, and avoiding the dependence on a single sector, single market, and a small number of customers; making use of the investment cycle gaps of different sectors and different industries to complete talent, technology and capacity reserve.



Sustainable Development

Taking innovation as the growth engine, talents as the cornerstone of operation and value as the product orientation, and a global vision for development, the Group will continue to create value for customers and downstream industries, protect the interests of Shareholders, and firmly fulfill its social responsibilities.

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.

Revenue by end application	As of 31 December				Increase/ (decrease) RMB'000	Year-on-year change
	2022		2021			
	RMB'000	**Proportion**	RMB'000 (Restated)	Proportion (Restated)		
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 and biopharmaceutical	**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					
	2022		2021		Increase	Year-on-year
Cost of sales	**RMB'000**	**Proportion**	RMB'000 (Restated)	Proportion (Restated)	RMB'000	change
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.

	As of 31 December					
	2022		2021		Increase/	
Gross profit by end application	**RMB'000**	**Gross profit margin**	RMB'000 (Restated)	Gross profit margin (Restated)	(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 and biopharmaceutical	**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 consist 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 consist 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-Hong Kong Financial Reporting Standards ("HKFRS") Measures

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

EBITDA and adjusted EBITDA

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
Interest expenses	**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; and (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, SEK300,000,000, HK$93,000,000 and JPY16,400,000,000 (aggregately equivalent to RMB3,635,161,000), of which, used bank facilities were approximately RMB1,105,317,000, USD57,636,000, EUR3,686,000, 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, 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, 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, Pharmadule Singapore. The registered capital of Pharmadule Singapore is SGD500,000, 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 annual report, the Group had no significant events after the Reporting Period.

The Board is pleased to present this report of the Directors together with the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL BUSINESS

The Company is a limited liability company incorporated under the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 23 July 2019. The Group's principal activities are the design, manufacture, installation and operation and maintenance of core equipment, process system (such as process module) and total solutions (such as modular industrial equipment) mainly for chemical reactions, biological reactions and polymerization. The Group currently provides services to downstream industries/fields include oil and gas, family care, new chemical materials, pharmaceuticals (including biopharmaceuticals and chemical synthesis drugs), raw materials for power batteries (including metallic ores, raw materials for lithium batteries and intermediate chemical raw materials) and electronic chemicals (including the production of raw materials for photovoltaics and high-purity chemical reagents), etc.

A list of the Company's subsidiaries (save for Morimatsu Dialog), together with their places of incorporation, principal activities and particulars of their issued shares/fully paid-up capital, is set out in note 13 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

A review of the business of the Group during the Reporting Period and a discussion on the Group's future business development are set out in the section headed "Management Discussion and Analysis" of this annual report. This discussion forms part of this report of the Board.

DIRECTORS

The Directors during the Reporting Period and up to the date of this Directors' Report were:

Executive Directors

Mr. Nishimatsu Koei (Chief Executive Officer)
Mr. Hirazawa Jungo (Chief Financial Officer)
Mr. Tang Weihua
Mr. Sheng Ye
Mr. Kawashima Hirotaka

Non-executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

Ms. Chan Yuen Sau Kelly
Mr. Kanno Shinichiro
Mr. Yu Jianguo

Other directors of all subsidiaries during the Reporting Period and up to the date of this Directors' Report

Ms. Nishimura Kyoko
Mr. Matsuhisa Hiroyuki
Mr. Lu Weifeng
Mr. Sanada Kazuaki
Mr. Suganuma Yasuo
Mr. Li Hongbin
Ms. Zhao Xiaohong
Mr. Yang Xiaodong
Mr. Lv Binfeng
Mr. Chen Zhangwu
Mr. Jiang Pei
Mr. Gu Zhenghui
Mr. Gausmohmmad Mohmmadaslam Khan
Mr. Hans Wallebring
Ms. Zhang Haifang
Ms. Zhang Yali
Ms. Xia Wei
Mr. Lu Yi
Mr. Zhang Rengui
Mr. Ma Yong

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management are set out in the section headed "Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years, subject to termination before expiry by either party giving not less than three months' notice in writing to the other.

Each of our independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has a service contract with the Company or any member of the Group which is not terminated by the employer within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force during the Reporting Period and as at the date of this annual report in accordance with the Articles of Association. The Company has arranged appropriate liability insurance coverage for the Directors and the senior management of the Company, which provides appropriate coverage for the Directors and the senior management of the Company.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The remuneration of the Directors will be reviewed by the Remuneration Committee and approved by the Shareholders. In determining the remuneration of the Directors, the relevant Director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions will be considered.

Details of the remuneration of the Directors and the five highest paid individuals of the Group are set out in notes 7 and 8 to the consolidated financial statements in this annual report.

None of the Directors has waived or agreed to waive any remuneration during the Reporting Period.

CHANGES IN INFORMATION OF DIRECTORS

Since 16 January 2023, Mr. Hirazawa Jungo, an executive Director, served as a director of Pharmadule Singapore.

Since April 2023, Mr. Kanno Shinichiro, an independent non-executive Director, no longer served as a distinguished professor in the Tokyo International University (東京國際大學).

Save as disclosed above, the Directors (including the Chief Executive Officer) confirmed that there is no change to any of the information required to be disclosed in relation to any Director (including the Chief Executive Officer) pursuant to Rule 13.51B of the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2022, none of the Directors or their respective associates (as defined in the Listing Rules) had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-competition, pursuant to which each of our Controlling Shareholders has, amongst other matters, irrevocably and unconditionally undertaken with the Company (for itself and as trustee for its subsidiaries) that at any time during the Relevant Period (as defined below), he/it shall, and shall procure that his/its respective close associates (except any members of the Group) shall:

(1) not, directly or indirectly, be interested, involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise, and whether for profit, reward or otherwise) in any business which competes or is likely to complete directly or indirectly with the core business currently engaged or possibly in the future to be engaged by the Group in Hong Kong, the PRC and any other country or jurisdiction to which the Group provides such services and/or in which any member of the Group carries on business mentioned above from time to time (the "**Restricted Business**");

(2) not take any action, directly or indirectly, which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of any existing customers, suppliers or employees of the Group for employment by them or their close associates (other than members of the Group);

(3) not, without the prior consent from the Company, make use of any information pertaining to the business of the Group which may have come to their knowledge in the capacity as the Controlling Shareholders for any purpose of engaging, investing or participating in any Restricted Business;

(4) if there is any project or new business opportunity that relates to the Restricted Business (the "**Business Opportunity**") available to any of the Controlling Shareholders or their close associates (other than members of the Group):

1） notify the Company in writing immediately, followed by the provision of requisite information which is reasonable necessary for the merits on whether or not to engage in such Business Opportunity be considered, assessed and/or evaluated;

2） who plans to participate or engage in such Business Opportunity, give the Company a first right of refusal to participate or engage therein on terms that are fair and reasonable;

3） not pursue such Business Opportunity until we have confirmed in writing our rejection to pursue, involve or engage in the same because of commercial reasons, any of our decisions on which will have to be approved by the independent non-executive Directors (the "**Independent Board**") (at the exclusion of those with beneficial interests in such Business Opportunity), taking into account, among other issues, (i) the prevailing business, legal, regulatory and contractual landscape of the Group, (ii) results of feasibility study, (iii) counterparty risks, (iv) contemplated profitability, (v) the financial resources required for such Business Opportunity and, (vi) where necessary, any opinion from experts on the commercial viability of the same; and

4） on the condition that the Group rejects to pursue such Business Opportunity pursuant to sub-paragraph (4) above or if the Independent Board failed to respond within 30 days' period, that the principal terms on which the relevant Controlling Shareholder and/or his/its close associates pursues such Business Opportunity are substantially the same as or not more favourable than those disclosed to the Company and that the terms of such pursuance, whether directly or indirectly, shall be disclosed to the Company and our Directors as soon as practicable;

(5) keep the Board informed of any matter of potential conflicts of interests between each of the Controlling Shareholders (including his/its close associates) and the Group, in particular a transaction between any of the Controlling Shareholders (including his/its close associates) and the Group; and

(6) provide as soon as practicable upon the Company's request to our Directors (including the independent non-executive Directors):

1) a written confirmation on an annual basis in respect of compliance by him/it with the terms of the Deed of Non-competition;

2) all information necessary for the review and enforcement of the undertakings contained in the Deed of Non-competition by the independent non-executive Directors with regard to such compliance; and

3) their respective consent to the inclusion of such confirmation in the Company's annual report or by way of an announcement, and all such other information as may be reasonably requested by the Company for its review.

For the above purpose, the "Relevant Period" means the period commencing from the Listing Date and shall expire on the earliest of the following dates on which:

(1) the Controlling Shareholders and their close associates (individually or taken as a whole) ceases to own an aggregate of 30% of the then issued share capital of the Company, directly or indirectly, or cease to be the controlling shareholders for the purpose of the Listing Rules and do not have power to control the Board;

(2) the day the Shares cease to be listed on the Stock Exchange; and

(3) the Company becomes wholly-owned by any of the Controlling Shareholders and/or their respective close associates.

Each of Morimatsu Group, Morimatsu Holdings, Matsuhisa Terumoto and Mr. Matsuhisa Hiroyuki (the "**Covenantors**") has provided a confirmation to the Company regarding their compliance with the Deed of Non-Competition during the Reporting Period. The independent non-executive Directors have reviewed their respective compliance with the Deed of Non-Competition, evaluated its effective implementation and were satisfied with the Covenantors' compliance with the Deed of Non-Competition during the Reporting Period.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transaction, arrangement or contract of significance, to which the Company, its parent company or controlling shareholders or any of their respective subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the Reporting Period.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had a total of 4,142 employees, among which 521 are 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.

Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees. The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above. All contributions to the defined contribution retirement scheme are recognised as an expense in profit or loss when the services are rendered by the employees and when they fall due under the relevant regulations. For the defined contribution retirement scheme, no forfeited contributions could be used by employer to reduce the existing level of contributions.

The Company has also adopted a Pre-IPO Share Option Scheme, a Post-IPO Share Option Scheme and a RSU Scheme. The specific details of the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme and the RSU Scheme are set out in the sections headed "Pre-IPO Share Option Scheme", "Post-IPO Share Option Scheme" and "RSU Scheme" below.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Reporting Period are set out in note 31 to the consolidated financial statements in this annual report.

Save as the lease payments set out below, which constitute a continuing connected transaction, and the other continuing connected transactions exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, none of these related party transactions constituted a connected transaction as defined under the Listing Rules during the Reporting Period.

CONTINUING CONNECTED TRANSACTIONS

Partially-exempt Continuing Connected Transactions

Lease of Shanghai manufacturing base from Morimatsu Chemical Equipment

Morimatsu Chemical Equipment is a subsidiary of Morimatsu Seiki, which in turn is a subsidiary of the Controlling Shareholder, Morimatsu Holdings. Accordingly, Morimatsu Chemical Equipment is a connected person of the Company pursuant to Chapter 14A of the Listing Rules and the transactions with Morimatsu Chemical Equipment constitute continuing connected transactions of the Company.

The Group leased the Shanghai manufacturing base, situated at No. 29 Jinwen Road, Zhuqiao Town, Pudong New District, Shanghai, the PRC from Morimatsu Chemical Equipment for production and operation. The Company (for itself and on behalf of its subsidiaries) and Morimatsu Chemical Equipment entered into a property leasing framework agreement (the "**Property Leasing Framework Agreement**") on 17 February 2021.

Pursuant to the Property Leasing Framework Agreement, relevant subsidiaries of the Group shall enter into individual property lease agreement(s) with Morimatsu Chemical Equipment, which prescribe specific terms and conditions, including rental amount, payment method and other relevant terms which shall reflect and be subject to the binding principles, guidelines, and terms and conditions in the Property Leasing Framework Agreement.

The Property Leasing Framework Agreement has a term of three years commencing from the Listing Date (the "**Target Term**"), including a fixed term of twelve (12) months immediately after the Listing Date (the "**First Year**"). If we intend to continue the leasing arrangements for the subsequent period of the Target Term after the First Year (the "**Subsequent Period**"), we will re-negotiate the rents with Morimatsu Chemical Equipment within thirty (30) days before the end of the First Year, and enter into new individual property lease agreement(s), which shall be in conformity with the terms and conditions contemplated under the Property Leasing Framework Agreement and the annual caps thereunder. Upon expiry of the Target Term, the Property Leasing Framework Agreement may, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

The annual cap of such continuing connected transactions for 2022 was RMB57,000,000. Due to the COVID-19 epidemic, the relevant subsidiaries of the Group have obtained rent reductions of approximately RMB8,556,000 for office buildings and production workshops, and the actual rent (tax inclusive) for 2022 was approximately RMB48,485,000. Set forth below is the actual transaction amounts during the Reporting Period:

Lessee	**Lease commencement date**	**Lease term**	**Leased area (sq.m.)**	**Monthly rent (tax inclusive)**	**Annual rent (tax inclusive)**
Morimatsu China	1 January 2022	1 year	828.32	113,761	1,160,367
Morimatsu Heavy Industry	1 January 2022	1 year	31,686.14	2,610,726	26,629,408
Office buildings			6,332.30		
Production workshops			25,353.84		
Morimatsu Pharmaceutical	1 January 2022	1 year	24,435.52	2,028,901	20,694,792
Office buildings			5,110.15		
Production workshops			19,325.37		
Subtotal			56,949.98	4,753,388	48,484,567

Save as disclosed above, during the Reporting Period, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The auditors of the Company have reviewed the above continuing connected transactions and have issued a letter to the Company confirming that, with respect to the above continuing connected transactions:

(1) nothing has come to the auditor's attention that causes the auditor to believe that the transactions have not been approved by the Board;

(2) nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(3) nothing has come to the auditor's attention that causes the auditor to believe that the transactions have exceeded the annual caps.

RISK MANAGEMENT

The Group recognises that risk management is one of the important elements for maintaining an efficient, safe and stable business operation. The Group's management is responsible for assisting the Board in evaluating the Group's daily operations and activities, which are exposed to material risks (including operational risks, financial risks, regulatory risks, etc.) within and outside the organization. The Group has also established appropriate risk management and internal control systems and institutions in daily operation and management activities.

Market risk

The Group's market risk mainly arises from the cyclical development of downstream market and industries, such as conventional energy products and chemical products. However, the Group is committed to the diversification of market development and customer base. The extensive downstream markets and large customer base enable the Group to make full use of the investment cycle of different industries and customers, embed the existing production capacity into the investment cycle of different fields, and maintain the stable and healthy growth of business.

Interest rate risk

The Group's interest rate risk arises primarily from short-term and long-term borrowings with fixed interest rates. Changes in interest rates will affect the Group's finance costs.

Foreign exchange risk

The Group's revenue is mainly denominated in Renminbi, USD and Euro, and most of the raw materials and capital expenditure are denominated in Renminbi. The Group's foreign exchange risk mainly arises from the foreign currency deposits held and trade receivables denominated in foreign currencies, which would have an impact on the Group's operating profit if foreign exchange rates fluctuate. The Group monitors and reduces the net amount of foreign exchange and establishes a series of forward foreign exchange contracts to control foreign exchange risk, and also promotes the signing of overseas RMB settlement sales orders with customers to reduce foreign exchange risk exposure.

Credit risk

The Group has established credit control policies for all major operations. In order to minimise the credit risk, the Group monitors and controls the credit risk of customers, performs periodic credit checks on customers, and demands for payment for overdue trade receivables.

The Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate provision for expected credit losses is made.

Trade risks in sanctioned countries/regions

Some of the Group's products were mainly sold and/or delivered on FOB or shipper basis to certain countries/regions subject to International Sanctions, namely, the Hellenic Republic, the Republic of Turkey, Egypt, Iraq and Russia. During the Reporting Period, revenue from products sold and/or delivered to countries/regions subject to International Sanctions amounted to approximately RMB428.5 million (2021: approximately RMB33.2 million), representing approximately 6.61% of the Group's total revenue (2021: approximately 0.77%).

The Group did not use the net proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange and would not enter into any transaction, whether directly or indirectly, to finance or facilitate any activities or business with, or for the benefit of, any sanctioned countries/regions or any other governments, individuals or entities sanctioned by the United States of America ("**USA**"), the European Union ("**EU**"), Australia or the United Nations or any activities or business that violate the sanctions imposed by the United States, the European Union, Australia or the United Nations. The Group had not been notified of any International Sanctions that would be imposed on the Group for sales and/or deliveries to the countries/regions subject to International Sanctions for the year ended 31 December 2022, and the Group is not aware of any International Sanctions that would arise if the Group were to sell and/or deliver products to countries/regions subject to International Sanctions. Although the Directors do not expect any material increase in the sales or delivery of the Group's products to these countries/regions, the Group expects to continue to sell and/or deliver its products to those countries/regions subject to International Sanctions.

To monitor its sanctions risks, (i) our Board has established a sanctions oversight committee to manage our exposure to sanctions risks and oversee the implementation of our internal control policies; (ii) the Group has opened and maintained separate bank account which is designated for proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange to ensure that we will not breach our undertakings to the Stock Exchange as disclosed in the Prospectus; and (iii) the Group has engaged external legal advisers with relevant expertise and experience in sanctions matters to evaluate the sanctions risk where necessary and has formulated risk management measures and action plans taking into account the advice and recommendations provided by such external legal advisers. On this basis, our Directors are of the view that the Group has an adequate and effective internal control framework to continue to support the Group in identifying and monitoring any material risk relating to International Sanctions laws to protect the interests of the Company and our Shareholders.

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

As at 31 December 2022, the interests and short positions of the directors, supervisors, chief executives of the Company or their associates in the Shares, the underlying Shares or bonds of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange in accordance with Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed or to have under such provisions of the SFO), or the interests or short positions to be entered in the register required to be kept under Section 352 of the SFO, or to be notified separately to the Company and the Stock Exchange in accordance with the Model Code contained in the Listing Rules were as follows:

(1) Long position in shares of the Company

Name of directors	Capacity/Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage (%) of issued share capital as at 31 December 2022[2]
Matsuhisa Terumoto	Beneficial owner[1]	16,810,000	1.57%
Nishimatsu Koei	Beneficial owner[1]	1,763,000	0.16%
	Beneficial owner	499,000	0.05%
Kawashima Hirotaka	Beneficial owner[1]	792,000	0.07%
Hirazawa Jungo	Beneficial owner[1]	680,000	0.06%
Tang Weihua	Beneficial owner[1]	260	0.00%
	Beneficial owner	850,859	0.08%
Sheng Ye	Beneficial owner	843,856	0.08%

Notes:

1 Interest in the share options granted under the Pre-IPO Share Option Scheme.

2 The calculation is based on the total number of 1,073,795,900 Shares in issue as at 31 December 2022.

(2) Long position in shares of associated corporations of the Company

Name of directors	Name of associated corporation	Capacity/Nature of interests	Total equity	Approximate percentage (%)
Tang Weihua	Morimatsu Biotechnology	Interest in a controlled corporation	4,375,000	8.75%[1]
Tang Weihua	Mori-Biounion Technology	Interest in a controlled corporation	4,375,000	8.75%[2]

Notes:

1 Jinwen Consultation's holds 8.75% equity interest in Morimatsu Biotechnology. Tang Weihua, as a limited partner, holds 33.62% of the shares in Jinwen Consultation. Jinliang Technology is the general partner of Jinwen Consultation, and Tang Weihua, as a limited partner, holds 29% of equity interest in Jinliang Technology. Therefore, Tang Weihua is deemed to be interested in the shares held by Jinwen Consultation in Morimatsu Biotechnology.

2 Mori-Biounion Technology is a non-wholly owned subsidiary of Morimatsu Biotechnology, which is held as to 59.32% by Morimatsu Biotechnology. Therefore, Tang Weihua is deemed to be interested in Mori-Biounion Technology.

Save as disclosed above, as at 31 December 2022, none of the Directors, supervisors, senior management of the Company and their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2022, to the best knowledge of the Directors and chief executives of the Company, the interests and short positions of substantial Shareholders and other persons (excluding the Directors, supervisors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of major shareholders	Capacity	Number of Shareholdings	Approximate percentage (%) of issued shares as at 31 December 2022[2]
Morimatsu Holdings	Beneficial owner	750,000,000 (L)[1]	69.85%
Morimatsu Group[3]	Interest in a controlled corporation	750,000,000 (L)	69.85%
Mr. Matsuhisa Terumoto[4]	Interest in a controlled corporation	750,000,000 (L)	69.85%
	Beneficial owner	16,810,000 (L)	1.57%

Notes:

1 The letter ("**L**") denotes the person's long position in the Shares.

2 The percentage is calculated based on the total number of 1,073,795,900 issued Shares of the Company as at 31 December 2022.

3 Morimatsu Holdings is wholly owned by Morimatsu Group. Mr. Matsuhisa Terumoto holds 100% of the voting shares of Morimatsu Group, and is therefore deemed to be interested in the shares held by Morimatsu Holdings.

4 Mr. Matsuhisa Terumoto is also interested in the options granted pursuant to the Pre-IPO Share Option Scheme to subscribe for 16,810,000 Shares.

Save as disclosed above, to the knowledge of the Directors and chief executives, as at 31 December 2022, there is no other person (excluding Directors, supervisors and chief executives of the Company or their respective associates) has interests or short positions as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO in the Shares and underlying Shares.

PRE-IPO SHARE OPTION SCHEME

The following is a summary of all the principal terms of the Pre-IPO Share Option Scheme.

(1) Purpose

The purpose of the Pre-IPO Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph 2) below) for their contribution to, and continuing efforts to promote the interests of, the Company and for such other purposes as the Board may approve from time to time.

(2) Grantees

Directors and employees (whether full-time or part-time) of any member of the Group.

(3) Maximum number of Shares to be allotted

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 132,380,000 Shares, representing approximately 11.47% of the issued Shares as of the date of this annual report.

(4) Subscription price

The subscription price per Share under the Pre-IPO Share Option Scheme is HKD0.0001.

(5) Exercise period

The options granted under the Pre-IPO Share Option Scheme and the relevant offer letters shall vest as follows:

1) a grantee is entitled to exercise 20% of the total number of options granted at any time after the first anniversary of the Listing Date;

2) a grantee is entitled to exercise an additional 20% of the total number of options granted at any time after the second anniversary of the Listing Date;

3) a grantee is entitled to exercise an additional 20% of the total number of options granted at any time after the third anniversary of the Listing Date;

4) a grantee is entitled to exercise an additional 20% of the total number of options granted at any time after the fourth anniversary of the Listing Date;

5) a grantee is entitled to exercise the remaining 20% of the total number of options granted at any time after the fifth anniversary of the Listing Date.

(6) Term

The Pre-IPO Share Option Scheme will remain in force for a period of 10 years commencing on the Listing Date.

(7) Right to cancel options

The Board may cancel an option granted but not exercised under the consent of the grantee of such option.

Exercise of share options

The Company adopted a Pre-IPO Share Option Scheme on 1 July 2020. Details of the Pre-IPO Share Option Scheme are set out in Appendix V to the Prospectus and note 27 to the consolidated financial statements. As at 31 December 2022, all share options had been granted under the Pre-IPO Share Option Scheme, and no share options had been cancelled. During the Reporting Period, details of the changes in the share options granted and the share options outstanding under the Pre-IPO Share Option Scheme are as follows:

Grantees	Number of underlying Shares	Number of Shares outstanding as at 1 January 2022	Number of Shares exercised during the Reporting Period	Exercise price (HKD)	Number of Shares lapsed during the Reporting Period	Number of Shares outstanding as at 31 December 2022
Directors						
Matsuhisa Terumoto	16,810,000	16,810,000	—	—	—	16,810,000
Nishimatsu Koei	11,315,000	11,315,000	500,000	0.0001	—	10,815,000
Kawashima Hirotaka	3,960,000	3,960,000	—	—	—	3,960,000
Hirazawa Jungo	3,400,000	3,400,000	—	—	—	3,400,000
Tang Weihua	7,920,000	7,920,000	1,583,740	0.0001	—	6,336,260
Sheng Ye	7,920,000	7,920,000	1,584,000	0.0001	—	6,336,000
Subtotal	51,325,000	51,325,000	3,667,740	—	—	47,657,260
Associates of Directors of the Company or its subsidiaries						
Matsuhisa Hideo	4,200,000	4,200,000	—	—	—	4,200,000
Other 20 employees	76,855,000	76,855,000	11,744,948	0.0001	2,830,000	62,280,052
Total	132,380,000	132,380,000	15,412,688	—	2,830,000	114,137,312

During the Reporting Period, the number of Shares issued by the Company under the Pre-IPO Share Option Scheme was 26,476,000 Shares, representing approximately 2.47% of the issued share capital of the Company as at 31 December 2022. For share options exercised during the Reporting Period, the weighted average closing price on the date immediately prior to the exercise was HK$8.25.

No further options has been granted under the Pre-IPO Share Option Scheme since the Listing Date.

As at the date of this annual report, the remaining life of the Pre-IPO Share Option Scheme is approximately eight (8) years.

POST-IPO SHARE OPTION SCHEME

The following is a summary of all the principal terms of the Post-IPO Share Option Scheme. The specific details set out in the Appendix V to the Prospectus.

(1) Purpose

The purpose of the Post-IPO Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (2) below) for their contribution to, and continuing efforts to promote the interests of, the Company and for such other purposes as the Board may approve from time to time.

(2) Eligibility of Participants

The Board may, at its absolute discretion, offer eligible persons (being any Directors or employees (whether full time or part time), consultants or advisors of the Group who in the sole discretion of the Board has contributed to and/or will contribute to the Group) (the "**Eligible Persons**") to subscribe for such number of Shares in accordance with the terms of the Post-IPO Share Option Scheme.

(3) Maximum number of Shares

1) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

2) Subject to paragraphs (3) (i), (iv) and (v), at the time of adoption by the Company of the Post-IPO Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Schemes**") of the Company must not in aggregate exceed 10% of the total number of the Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**"). As of the date of this annual report, the total number of shares available for issue under the Post-IPO Share Option Scheme is 100,000,000 Shares, representing 8.67% of the issued Shares as of the date of this annual report.

3) For the purposes of calculating the Scheme Mandate Limit under paragraph (3)(ii), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.

4) The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:

    A. the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as at the date of Shareholders' approval of the refreshment of the Scheme Mandate Limit;

    B. options previously granted under any Existing Schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the refreshed limit; and

C. a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules.

5) The Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:

A. the options were granted to Eligible Persons specifically identified by the Company before such approval is sought in accordance to the terms of the Post-IPO Share Option Scheme; and

B. a circular in relation to such grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules and other applicable laws and regulations in accordance to the terms of the Post-IPO Share Option Scheme.

(4) Maximum number of share options to any one individual

No option shall be granted to any Eligible Persons (the "**Relevant Eligible Person**") if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all share options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Post-IPO Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time, unless:

1) such grant has been duly approved, in the manner specified by the relevant provisions of Chapter 17 of the Listing Rules, by resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and its associates shall abstain from voting;

2) a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and

3) the number and terms (including the subscription price) of such share options are determined before the general meeting of the Company at which the same are approved.

(5) Price of Shares

The subscription price for a Share in respect of any particular share option granted under the Post-IPO Share Option Scheme (which shall be payable upon exercise of the share option) shall be a price determined by the Board at its sole discretion and notified to all Eligible Persons and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option (the "**Offer Date**") (provided that the new issue price shall be used as the closing price of the Shares for any business day before the listing of the Company in case of the offer date is less than five business days upon the listing of the Company); and (iii) the nominal value of the Share. A consideration of HKD1.00 is payable on acceptance of the offer of share option.

(6) Granting options to related persons

Any grant of options to Directors, the chief executive officer or Substantial Shareholders of the Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the share options). If the Company proposes to grant share options to a Substantial Shareholder or an independent non-executive Director of the Company or their respective associates which will result in the number and value of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% of the Shares in issue at the time of such grant; and (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of each grant, in excess of HKD5,000,000, such grant shall not be valid unless: (A) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules (including in particular, a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the prospective grantee) to the independent Shareholders as to voting); and (B) such grant has been approved by the Shareholders in general meeting (taken on a poll) at which all connected persons shall abstain from voting.

(7) Restrictions on the time of grant of options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified by the Company to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement. The period which no option may be granted will cover any period of delay in the publication of results announcement.

(8) Time of exercise of option

Subject to the provisions of the Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Post-IPO Share Option Scheme as the Board may think fit (to be stated in the offer letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Post-IPO Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

The date of grant of any particular option shall be the date on which the offer of such option is duly accepted by the grantee in accordance with the Post-IPO Share Option Scheme. An option may be exercised in whole or in part in accordance with the terms of the Post-IPO Share Option Scheme and the terms of the offer by the grantee (or his personal representative(s)) giving notice in writing to the Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that it is exercised in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice shall be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Post-IPO Share Option Scheme. Subject to earlier termination by the Company in general meeting, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Post-IPO Share Option Scheme by Shareholders by resolution at a general meeting.

(9) Performance target

The Board may from time to time require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Post-IPO Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Post-IPO Share Option Scheme and the Board is currently unable to determine such restriction on the exercise of the options granted under the Post-IPO Share Option Scheme.

No option has been granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme during the period, nor any options were outstanding under the Post-IPO Share Option Scheme from the Listing Date to 31 December 2022.

The number of options available for grant under the Post-IPO Share Option Scheme mandate as of the beginning and end of the Reporting Period are both 100,000,000.

As at the date of this annual report, the remaining life of the Post-IPO Share Option Scheme is approximately eight (8) years.

RSU SCHEME

The Company adopted the RSU Scheme on 15 December 2021 and granted RSUs under the RSU Scheme on 5 January 2022. The following is a summary of the principal terms of the RSU Scheme. The specific details are set out in the Company's announcements dated 15 December 2021 and 5 January 2022.

(1) Purposes

The RSU Scheme aims to attract and retain the best available talents, motivate Employees, and promote the success of the Company's business.

(2) Participants

Persons eligible to receive RSUs under the RSU Scheme are existing Employees of the Company or any member of the Group. An Employee who has been granted an Award may, if otherwise eligible, be granted additional Awards.

(3) Administration of the Scheme

The Company has appointed Futu Trustee Limited ("**Futu Trustee**") as the trustee of the RSU Scheme to assist in the administration and vesting of the RSUs granted under the RSU Scheme.

(4) Duration and termination

Subject to any early termination as may be determined by the Board pursuant to the RSU Scheme, the Scheme shall be valid and effective for a period of five (5) years commencing from the Adoption Date. Upon termination of the RSU Scheme, no further RSUs shall be granted under the RSU Scheme.

(5) Scheme Limit

The Shares to be issued pursuant to the RSU Scheme shall be authorized, but unissued, or reacquired ordinary Shares. The maximum aggregate number of Shares which may be issued pursuant to the RSU Scheme is 30,000,000, representing approximately 2.60% of the issued Shares as of the date of this annual report. In any event, (1) the maximum aggregate number of Shares which may be issued pursuant to the RSU Scheme shall not exceed 10% of the issued share capital of the Company (as changed from time to time); and (2) the maximum number of Shares which may be awarded to an individual Employee under the RSU Scheme shall not exceed 1% of the issued share capital of the Company (as changed from time to time).

(6) Grant of the RSUs

During the Reporting Period, a total of 29,459,700 RSUs (equivalent to 29,459,700 Underlying Shares) have been granted to 149 Grantees at nil consideration under the RSU Scheme, representing approximately 2.74% of the issued share capital of the Company as at 31 December 2022. The number of RSUs available for grant under the RSU Scheme mandate as of the beginning and end of the Reporting Period are 30,000,000 and 540,300, respectively.

(7) Purchase price

The purchase price for exercising a RSU is HK$4.17.

(8) Vesting schedule

The vesting schedule of the 29,459,700 RSUs granted to the Grantees shall be as follows:

1) in relation to 9,819,900 RSUs granted: the RSUs shall vest on 5 January, 2023;

2) in relation to 9,819,900 RSUs granted: the RSUs shall vest on 5 January, 2024;

3) in relation to 9,819,900 RSUs granted: the RSUs shall vest on 5 January, 2025.

(9) Performance targets

The vesting of each tranche of the RSUs as described above is subject to achievement of certain performance targets:

1) Group level performance:

   The Company will assess the revenue and profit of the Group for the relevant year.

2) Individual level performance:

   The Group has in place a standardised performance appraisal system for its employees to comprehensively evaluate their performance and contribution to the Group. The Company will determine whether the Grantees meet the individual performance target based on their performance appraisal results for the relevant year. In case of partial achievement and satisfaction of the performance targets, the applicable RSUs may be vested in proportion to the performance targets actually achieved for the relevant year.

Change in the RSUs

The Company adopted the RSU Scheme on 15 December 2021 and granted RSUs under the RSU Scheme on 5 January 2022. The specific details of the RSU Scheme are set out in the Company's announcements dated 15 December 2021 and 5 January 2022 and note 27 to the consolidated financial statements in this annual report. As at 31 December 2022, no RSUs had been cancelled. During the Reporting Period, details of the changes in the RSUs granted and the RSUs outstanding under the RSU Scheme are as follows:

Grantees	Number of RSUs	Number of RSUs outstanding as at 1 January 2022	Number of RSUs vested during the Reporting Period	Exercise price (HKD)	Number of RSUs lapsed during the Reporting Period	Number of RSUs outstanding as at 31 December 2022
149 employees	29,459,700	29,459,700	—	4.17	1,239,300	28,220,400

The closing price in relation to the RSUs before the date of grant was HK$8.51. During the Reporting Period, the number of Shares issued by the Company under the RSU Scheme was 9,819,900 Shares, representing approximately 0.91% of the issued share capital of the Company as at 31 December 2022.

The number of Shares that may be issued in respect of RSUs granted under the RSU Scheme during the Reporting Period divided by the weighted average number of Shares in issue is approximately 2.80%.

As at the date of this annual report, the remaining life of the RSU Scheme is approximately four (4) years.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's sales to its five largest customers accounted for approximately 28.5% of the Group's total revenue and sales to the Group's largest customer accounted for approximately 11.3% of the Group's total revenue.

During the Reporting Period, the five largest suppliers of the Group accounted for approximately 10.8% of the Group's total purchases and the largest supplier of the Group accounted for approximately 3.0% of the Group's total purchases.

None of the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers during the Reporting Period.

MANAGEMENT CONTRACTS

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during the Reporting Period.

RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income of this annual report. The Board does not recommend the payment of any final dividend for the Reporting Period.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 28 to the consolidated financial statements in this annual report.

RESERVE

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 28 to the consolidated financial statements in this annual report.

Details of the Company's reserves available for distribution to the Shareholders as at 31 December 2022 are set out in note 28 "Reserves" to the consolidated financial statements of this annual report.

DONATION

During the Reporting Period, the Group made charitable and other donations amounting to approximately RMB1,091,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 10 to the consolidated financial statements in this annual report.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The initial public offering of the Company's shares was conducted on the Main Board of the Stock Exchange on 28 June 2021 with net proceeds of approximately HKD686,690,000 (after deduction of underwriting commission and related expenses) raised (the "**Net Proceeds**").

The Company has used and will continue to use the Net Proceeds for allocation and purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus. During the Reporting Period, the Group has utilised the Net Proceeds as the table below:

Purposes	Allocation of actual Net Proceeds raised HKD'000	Allocation of actual Net Proceeds raised RMB'000	Percentage of total amount of the Net Proceeds allocated %	Unutilised Net Proceeds as at 31 December 2021 RMB'000	Utilised Net Proceeds during the Reporting Period RMB'000	Unutilised Net Proceeds as at 31 December 2022 RMB'000	Expected timeline for the usage of the remaining Net Proceeds	Illustration
Improve production capacity and modular manufacturing capability	412,014	342,957	60.0%	211,855	211,855	—		Note 1
Improve and expand service and digital service capabilities	90,679	75,481	13.2%	75,481	39,211	36,270	By the end of 2023	
Continue to implement internationalization strategy	82,436	68,619	12.0%	54,671	11,490	43,181	By the end of 2024	Note 2
Investment in underlying research and development from 2021 to 2023	32,974	27,448	4.8%	24,505	24,505	—		
General working capital	68,587	57,091	10.0%	2,420	2,420	—		
Subtotal	686,690	571,596		368,932	289,481	79,451		

Note 1: In 2022, Morimatsu LifeSciences signed a land transfer contract with the Natural Resources and Planning Bureau of Changshu City (常熟市自然資源和規劃局), and completed the phase-I land subscription of approximately 130,000 square meters, obtained the project planning and construction permit for a "new research and development and manufacturing center for high-end intelligent manufacturing equipment system for biopharmaceuticals and electronic chemicals, etc.", and made the construction prepayments to the third-party construction unit. The project had commenced construction during the Reporting Period and is expected to be delivered and put into operation in the fourth quarter of 2023, which, upon completion, will become another modern manufacturing base of the Group.

Note 2: In 2022, the Group continued to recruit certain technical experts and engineers in different fields in Japan to promote the construction of the engineering center in Japan. The Japanese expert team has become a strong backup force for the Group's sales and technical support. The subsidiary of the Company in Italy had officially commenced operation during the Reporting Period and become a bridge for the Group to communicate with European customers, which will help the Group continue to expand its business overseas.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Group did not purchase, sell or redeem any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Post-IPO Share Option Scheme" and "RSU Scheme" above, no equity-linked agreements were entered into by the Company, or existed during the Reporting Period.

AGM AND CLOSURE OF REGISTER OF MEMBERS

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.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Information on the Company's environmental policies and performance is set out in the section headed "Environmental, Social and Governance Report" of this annual report.

During the Reporting Period, the Group had complied with the applicable environmental laws and regulations in the places where it operates in all material respects. The Group will review its environmental practices from time to time and will consider implementing further environmental-friendly initiatives and practices in the operation of the Group's business to enhance sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Reporting Period, the Company had complied with the relevant laws and regulations that have a significant impact on the Company in all material respects.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the knowledge of the Directors, the Company has maintained a public float of not less than 25% of the issued Shares since the listing date and up to the date of this annual report.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the Reporting Period are set out in note 22 to the consolidated financial statements in this annual report.

MATERIAL LITIGATIONS AND ARBITRATION MATTERS

During the Reporting Period the Group had no material litigation and arbitration matters.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of Hong Kong where the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

AUDITOR

The Company had appointed KPMG as the auditor of the Company for the Reporting Period. A resolution for the re-appointment of KPMG as the auditor of the Company will be proposed for Shareholders' approval at the forthcoming AGM.

On behalf of the Board

Nishimatsu Koei
Chief executive officer and executive Director

Hong Kong, 22 March 2023

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report of the Company for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the governance principles and code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices.

The Board is of the view that the Company has complied with all applicable code provisions set out in the CG Code during the Reporting Period. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS

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.

The Company has also established a code of conduct for securities transactions by employees who are likely to be in possession of inside information of the Company (the "**Employees Code**") on terms no less exacting than the Model Code. During the Reporting Period, no incident of non-compliance of the Employees Code by employees was noted by the Company.

THE BOARD

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Nishimatsu Koei (Chief Executive Officer)
Mr. Hirazawa Jungo (Chief Financial Officer)
Mr. Tang Weihua
Mr. Sheng Ye
Mr. Kawashima Hirotaka

Non-Executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

Ms. Chan Yuen Sau Kelly
Mr. Kanno Shinichiro
Mr. Yu Jianguo

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" of this annual report.

The Directors have no financial, business, family or other material/relevant relationships with each other.

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

Board meetings will be held regularly at least four times a year. Board members shall be provided with all agenda and adequate information for review within a reasonable time prior to the meeting.

Minutes of the Board and Board Committees are kept by Joint Company Secretaries and are available for inspection by the Directors at all times. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolutions.

Minutes of Board meetings and meetings of Board committees have contained sufficient records in details of the matters considered and decisions made at the meetings, including any concerns raised by Directors or opposing views expressed. Upon the conclusion of the Board meeting, the draft and final version of the meeting minutes shall be sent to all Directors within a reasonable period of time, with the draft for the Directors' comments and the final version for their records.

During the Reporting Period, the Board held four regular meetings in total, with active participation of all Directors either in person or through electronic means of communication. Code provision C.2.7 of the CG Code stipulates that the chairman should hold meetings with the independent non-executive directors at least once a year without the presence of other directors. The Company has made arrangements to comply with this code provision and held a meeting during the Reporting Period. On 16 June 2022, the Company held the AGM. The attendance record of the Directors is as follows:

		Attendance			
Name of Director	**Board Meetings**	**Meetings of Audit Committee**	**Meetings Of Remuneration Committee**	**Meetings Of Nomination Committee**	**AGM**
Mr. Nishimatsu Koei	4/4	N/A	N/A	N/A	1/1
Mr. Hirazawa Jungo	4/4	N/A	N/A	N/A	1/1
Mr. Tang Weihua	4/4	N/A	N/A	N/A	1/1
Mr. Sheng Ye	4/4	N/A	N/A	N/A	1/1
Mr. Kawashima Hirotaka	4/4	N/A	N/A	N/A	1/1
Mr. Matsuhisa Terumoto	4/4	5/5	1/1	1/1	1/1
Ms. Chan Yuen Sau Kelly	4/4	5/5	1/1	N/A	1/1
Mr. Kanno Shinichiro	4/4	5/5	N/A	1/1	1/1
Mr. Yu Jianguo	4/4	N/A	1/1	1/1	1/1

During the Reporting Period, apart from the Board meetings, consents and/or approvals from the Board were obtained by the Company by way of written resolutions on a number of matters/transactions.

RESPONSIBILITIES, ACCOUNTABILITY AND CONTRIBUTIONS OF THE BOARD AND THE MANAGEMENT

The Board is responsible for overseeing the management of the business and affairs of the Group, defining the Group's purpose, values and strategies and ensuring alignment with the Group's culture. The Directors are responsible for making decisions objectively in the interests of the Shareholders as a whole. All Directors act with integrity, make himself/herself as an example, and strive to promote the corporate culture of the Group.

The Board is responsible for making decisions on all major aspects of the Group's affairs, including the approval and monitoring of major policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

All Directors, including non-executive Directors and independent non-executive Directors, practice the concept of acting in accordance with the law, ethics and responsibility, and have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation.

The independent non-executive Directors are responsible for overseeing the Group's corporate actions and operations and exercising effective independent judgment on corporate actions and operations for maintaining a balance within the Board.

All Directors will have full and timely access to all information of the Company and, where appropriate, require to seek independent professional advice to discharge their duties to the Company at the Company's expense.

The Board may delegate its management and administrative functions to the management. In particular, the day-to-day management of the Group had been delegated to the executive Directors and the management team of the Group during the Reporting Period.

DIRECTORS' CONTINUOUS DEVELOPMENT

All the Directors are aware of their responsibilities to the Shareholders and are diligent in discharging their duties for the development of the Group. Each newly appointed Director, if any, is given a formal and comprehensive induction upon initial appointment to ensure that he or she has a proper understanding of the business and operations of the Group and is fully aware of his or her duties and responsibilities as a Director in accordance with applicable statutory and regulatory laws and regulations.

All Directors are provided with regular updates on the performance and financial position of the Company to facilitate the discharge of their duties by the Board as a whole and by each Director. In addition, each Director is also provided with briefings and updates on the latest developments of the Listing Rules and other applicable regulatory requirements to ensure compliance with related requirements and to raise their awareness of good corporate governance practices. According to the code provision C.1.4 of the CG Code, all Directors should participate in appropriate continuing professional development to develop and update their knowledge and skills to ensure that they remain fully informed and their contribution to the Board remains relevant. All Directors are encouraged to attend relevant training courses. During the Reporting Period, directors had participated in continuing professional development and have provided training records to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman of the Board and the chief executive officer are separate and performed by different individuals. Mr. Matsuhisa Terumoto is the chairman of the Board and Mr. Nishimatsu Koei is the chief executive officer. The chairman of the Board is responsible for overseeing the overall strategic planning of the Group while the Chief Executive Officer is responsible for overseeing the general management and daily operations of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his or her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

BOARD INDEPENDENCE POLICY

The Board has adopted a board independence policy (the "**Policy**"), which is intended to set out the principles for maintaining the independence of the Board.

The Structure, Size and Composition of the Board

The Board consists of executive Directors, non-executive Directors and independent non-executive Directors. In order to ensure that the Board can obtain independent opinions, the number of independent non-executive Directors in the Board shall not be less than one-third of the total number of Directors and shall not be less than three.

There are three standing director committees under the Board, namely the Nomination Committee, the Remuneration Committee and the Audit Committee. In order to ensure that the Board can obtain independent opinions, the three standing committees under the Board are all composed of non-executive Directors and independent non-executive Directors, and most of the members are independent non-executive Directors.

Independence Criteria for Assessing Independent Non-Executive Directors

(1) The general principle for assessing the independence of an independent non-executive Director is: the Director shall not have any material or substantial interest relationship with the Group, the management of the Group or the Controlling Shareholder of the Group. The independence of a Director may be more likely to be doubted if there is any of the following circumstances in relation to the Director.

1) Equity relationship:

The Director holds more than 1% of the issued Shares of the Company;

2) Professional service relationship:

   A. The Director is currently, or within the two years prior to the month when its independence was assessed, has been a current or former employee, partner, director or principal of a consulting company that provides professional services (including auditing services) that have a significant impact on operations to the Company or its core related persons;

   B. A family member of the Director is currently, or within the two years prior to the month when its independence was assessed, has been a current or former partner, director or principal of a consulting company that provides professional services (including auditing services) that have a significant impact on operations to the Company or its core related persons;

   C. A family member of the Director is the employee of the auditors engaged by the Company and is currently personally involved in providing audit services to the Company;

   D. During the two financial years preceding the year in which the Director's independence was assessed, the Director or his/her family member was an employee, partner or director of the auditors providing auditing services to the Company and personally involved in providing audit services to the Company;

3) Business relationship:

   A. The Director has or, within one year before the date of his proposed appointment as an independent non-executive Director, has had a material interest in any major business activities of the Company and its major subsidiaries (branches); or is involved in or has ever been involved in a major commercial transaction with the Company or its core related persons;

   B. The Director serves on the Board for the purpose of protecting an entity whose interests differ from those of the Company's shareholders as a whole;

4) Employment and remuneration relationships:

   A. The Director is (or has been within two years preceding the date on which he is proposed to be appointed as a director) an executive officer or director (other than an independent non-executive director) of the Company or its core related persons;

   B. The Director is financially dependent on the Company or its core related persons.

5) Serving as directorship of each other's company or other related relationships

   The Director and other Directors hold mutual directorships in the each other's company, or has a significant connection with other Directors through participation in other companies or groups. If the Board still considers such Director to be independent under such circumstance, the relevant reasons should be stated in the Corporate Governance Report.

(2) When assessing the independence of independent non-executive Directors, the Company should also refer to the relevant guidelines in Rule 3.13 of the Listing Rules to make judgments.

Requirements for Serving as an Independent Non-executive Directors

(1) An independent non-executive Director should meet the following basic requirements:

1） has the qualifications to serve as directors of listed companies according to the Listing Rules and other relevant regulations;

2） has the independence required by this policy;

3） possesses basic knowledge of the operation of listed companies, and is familiar with the Listing Rules, relevant laws, administrative regulations, rules and regulations;

4） has more than five years of legal, economic or other work experience necessary to perform the duties of an independent non-executive director;

5） other conditions stipulated by laws and regulations and the Articles of Association.

(2) Where an independent non-executive Director will be serving as a director of a seventh (or more) listed company, the Board will need to explain to the Shareholders why it believes that the person can still devote sufficient time to fulfilling his responsibilities as a director.

(3) If an independent non-executive Director fails to attend the Board meeting in person for three consecutive times, the Board shall request the general meeting to dismiss and replace him.

(4) Before the expiration of the term of an independent non-executive Director, the Company may remove him/her through statutory procedures. In case of early removal, the Company shall disclose it as a special disclosure.

(5) The Company shall not give any equity-based remuneration with a performance-related element to the independent non-executive Directors.

Requirements for the Term of Independent Non-Executive Directors

When an independent non-executive Director who has been re-elected for more than nine consecutive years remains independent and shall be re-elected, the factors considered, the procedures and the discussions of the Board or the nomination committee shall be additionally disclosed by the Company.

If an independent non-executive director has been in office for more than nine years, his/her re-appointment shall be reviewed and approved by Shareholders in the form of an independent resolution. The Company shall state in the document accompanying the resolution issued to Shareholders why the Board (or nomination committee) believes that the Director is still independent and shall be re-elected, including the factors considered, the process of the Board (or nomination committee) for making this decision and what was discussed.

If all independent non-executive Directors of the Company are independent non-executive Directors who have be re-elected for more than nine consecutive years, new independent non-executive Directors shall be appointed by the Company and the names and the time spent in the office shall be disclosed for each of such independent non-executive Directors who have be re-elected for more than nine consecutive years in the letter to shareholders.

The Board shall review the independence of Directors annually to ensure that the Directors are not involved in any business or other relationships that may affect their independent judgment. The Board shall review the composition of the Board, and the background, skills, experience and the understanding, knowledge and insight of the business of each executive and non-executive Director on the Board every year according to the requirements of business and strategy, and reviews the effectiveness of the relevant composition to ensure that the Board has a high degree of independence. The Board believes that the Policy is effective and adequate, and the Board had maintained its independence during the Reporting Period.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the Directors is engaged on a director's service agreement for a specific term of three years and is renewable by mutual agreement, subject to the provisions of the Articles of Association.

Pursuant to the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) or such higher number of Directors as may be determined by the Board, or a number determined by such other manner of rotation as may be required by the Listing Rules or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time shall retire from office.

Pursuant to the Articles of Association, subject to the provisions in relation to rotation and retirement of directors under the Listing Rules, each Director shall retire by rotation every three years at the AGM.

The retiring Directors shall be eligible for re-election.

COMMITTEES UNDER THE BOARD

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing specific aspects of the Company's affairs.

All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to make recommendations to our Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information and oversee the financial reporting system, risk management and internal control systems of the Company.

The Audit Committee comprises two independent non-executive Directors, namely Ms. Chan Yuen Sau Kelly and Mr. Kanno Shinichiro, and one non-executive Director, namely Mr. Matsuhisa Terumoto. Ms. Chan Yuen Sau Kelly is the chairman of the Audit Committee.

The Audit Committee held five meetings during the Reporting Period to review the 2021 annual results announcement and report and 2022 interim results announcement and report of the Company, and to review significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works.

The attendance records of the members of the Audit Committee are as follows:

Name of members of the Audit Committee	Attendance
Mr. Matsuhisa Terumoto	5/5
Ms. Chan Yuen Sau Kelly	5/5
Mr. Kanno Shinichiro	5/5

REMUNERATION COMMITTEE

The primary duties of the Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure for all Directors and the senior management of the Group, review remuneration and ensure that none of our Directors determine their own remuneration.

The Remuneration Committee comprises two independent non-executive Directors, namely Mr. Yu Jianguo and Ms. Chan Yuen Sau Kelly and one non-executive Director, namely Mr. Matsuhisa Terumoto. Mr. Yu Jianguo is the chairman of the Remuneration Committee.

The Remuneration Committee held one meeting during the Reporting Period to review the Company's remuneration policy and structure, the remuneration package of all Directors and senior management, and make recommendations to the Board.

The attendance records of the members of the Remuneration Committee are as follows:

Name of members of the Remuneration Committee	Attendance
Mr. Matsuhisa Terumoto	1/1
Ms. Chan Yuen Sau Kelly	1/1
Mr. Yu Jianguo	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Policy for Executive Directors and Senior Management

The Group's remuneration policy aims to provide a fair market level of remuneration to attract, retain and motivate high-quality executive Directors, senior management and employees, while aligning the rewards with Shareholders' interests at the same time.

The principles of the remuneration policy are as follows:

(1) Remuneration packages and structures shall reflect a fair reward system for all participants with an emphasis on performance, comprising the following components:

Components	Determining Factors
Fixed compensation	
Base salary and allowances	Market benchmarks relevant to role and job scope Company performance Individual performance and contribution, measured against annual financial and operational targets (turnover, expense ratio, earnings per share, achievement of key strategic initiatives, etc.)
Variable compensation	
Performance bonus	Company performance Individual performance and contribution, measured against annual financial and operational targets (turnover, expense ratio, earnings per share, achievement of key strategic initiatives, etc.)
Share options	Company performance

(2) Remuneration packages shall be set at levels that ensure comparability and competitiveness with similar companies. Independent professional advice is to be sought where appropriate.

(3) Remuneration and employment conditions of other employees in the Group shall be taken into account.

(4) The remuneration policy for executive Directors and senior management shall be reviewed regularly.

Remuneration Policy for Non-Executive Directors

Key elements for determining the remuneration policy for non-executive Directors include the following:

(1) Remuneration shall be set at an appropriate level to attract and retain first-class talents for non-executive Directors.

(2) Remuneration shall be set at a level proportional to their commitment and contribution to the Company.

(3) Remuneration practices for non-executive Directors shall be consistent with recognized best practice standards.

(4) Remuneration shall be paid on an annual basis.

(5) No equity interest remuneration with any performance-related element shall be given to independent non-executive Directors.

Remuneration Level of Directors and Senior Management

Details of the remuneration of the Directors for the Reporting Period are set out in note 7 to the financial statements.

During the Reporting Period, the remuneration of the senior management of the Company, whose biographies are set out in the section headed "Directors and Senior Management" of this annual report, fell within the following bands:

Senior management	Remuneration band (RMB)	Number of people
Nishimatsu Koei	9,500,000 to 10,000,000	1
Hirazawa Jungo	3,000,000 to 3,500,000	1

NOMINATION COMMITTEE

The primary duties of the Nomination Committee are to review the structure, size, composition and diversity of the Board and make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee comprises two independent non-executive Directors, Mr. Kanno Shinichiro and Mr. Yu Jianguo and one non-executive Director, Mr. Matsuhisa Terumoto. Mr. Matsuhisa Terumoto is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the Reporting Period to review the structure, size and composition of the Board and the Board diversity policy, and assess the independence of independent non-executive Directors.

The attendance records of the members of the Nomination Committee are as follows:

Name of members of the Nomination Committee	Attendance
Mr. Matsuhisa Terumoto	1/1
Mr. Kanno Shinichiro	1/1
Mr. Yu Jianguo	1/1

NOMINATION POLICY

The Board has adopted a nomination policy.

Purpose

(1) The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

(2) The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

(3) The Nomination Committee shall ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

Selection Criteria

(1) The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

1） character and integrity;

2） qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

3） accomplishment and experience business from time to time conducted, engaged in or invested in by any member of the Group;

4） commitment in respect of available time and relevant interest;

5） requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules;

6） the Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

7） such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

(2) Rigorous review is applied to assessing the continuing independence of Directors having served for over 9 consecutive years, with attention to ensuring that they remain independent in character and judgment, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

(3) Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as Directors and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a Director.

(4) The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

Nomination Procedures

(1) For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

(2) The Nomination Committee shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out in paragraph Selection Criteria (1) to determine whether such candidate is qualified for directorship.

(3) If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(4) The Nomination Committee shall then recommend to appoint the appropriate candidate for directorship. The Board shall have the ultimate responsibility for selection and appointment of Directors.

(5) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company pursuant to its constitutional documents, the Nomination Committee shall evaluate such candidate based on the criteria as set out in paragraph Selection Criteria (1) to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Directors at General Meetings

(1) The Nomination Committee shall review the overall contribution and service to the Company of the retiring Director including his/her attendance of Board meetings and, where applicable, general meetings, and the level of participation and performance on the Board.

(2) The Nomination Committee shall also review and determine whether the retiring Director continues to meet the criteria as set out in paragraph Selection Criteria (1).

(3) The Nomination Committee and/or the Board shall then make recommendation to Shareholders in respect of the proposed re-election of Director at general meetings.

Succession Planning

The Board recognises the importance of having continuity in the management of the Company, and managers with appropriate skills and experience to support the delivery of the Group's strategic priorities. Succession planning is a regular Board agenda item and considered by the Board annually.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "**policy**") which sets out the approach to achieve and maintain an appropriate balance of skills, experience and diverse perspectives of the Board that are relevant to the business growth to support the execution of business strategies.

Purpose

The purpose of the policy is to set out our approach to board diversity.

Vision

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

Policy Statement

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

The Nomination Committee will annually discuss and agree on measurable objectives for the implementation of board diversity and make recommendations to the Board for adoption.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the candidates will bring to the Board. The Board's composition (including gender, ethnicity, age, length of service) will be disclosed in the Corporate Governance Report annually.

Monitoring and Reporting

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of the policy. The Nominating Committee is responsible for ensuring diversity on the Board. The Nomination Committee will review the policy, as appropriate, to ensure the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Board comprises nine members, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of knowledge and experiences, including business management, quality control, administration and management, manufacture and research and development of pressure vessels and finance, auditing and accounting experiences. The Board members also obtained degrees in various majors including business administration, chemical and mechanical engineering, metallurgical engineering, water supply and drainage engineering, electronics engineering and business and commerce. Furthermore, the ages of the Directors range from 39 years old to 79 years old.

Taking into account the background of the Directors, the Nomination Committee is of the view that the composition of the Board is diversified.

While the Company recognises that gender diversity at our Board level can be improved given one out of nine of our Directors is female, the Company will continue to apply the principle of appointments based on merits with reference to the board diversity policy as a whole, and the Company has also taken, and will continue to take steps to promote gender diversity at all levels of the Company, including but not limited to the Board and the management levels. The Company will strive to achieve gender balance of the Board through certain measures to be implemented by our nomination committee in accordance with the board diversity policy. In particular, taking into account the business needs of the Group and changing circumstances from time to time that may affect the Group's business plans, the Company will actively identify female individuals suitably qualified to become the Board members and the Company aims to achieve a target of 20% female representation in the Board, during the period of which we are listed on the Stock Exchange. To further ensure gender diversity of the Board in a long run, the Group will also identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such female individuals who possess qualities to become the Board members, which will be reviewed by our nomination committee quarterly in order to develop a pipeline of potential successors to the Board to promote gender diversity of the Board of the Company.

The Company is also committed to adopting similar approach to promote diversity of all staff of the Group (including but not limited to the senior management) to enhance the effectiveness of our corporate governance. The Group is mainly engaged in design, manufacture, installation and operation and maintenance. Due to the nature of the industry, most of the Group's employees are male. The Company aims to maintain an appropriate balance of diverse perspectives that are relevant to the growth of the Group's business and also strives to ensure that recruitment and selection practices at all levels (from the Board down) are properly structured so that a diverse range of candidates is considered. As at 31 December 2022, the ratio of male and female employees of the Group is about 4.8: 1, details of related data are set out in the section headed "Environmental, Social and Governance Report". Due to the nature of the industry and the relevant labour supply market, the Company tends to employ more male employees than female employees. The Company is committed to maintaining a balance of male and female employees, and has implemented a fair employment policy. The Company will regularly assess its employment policy to ensure merit-based and diverse recruitment of employees in order to narrow the gender gap in the workforce.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or circumstances that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the Reporting Period is set out below:

Service Category	**Fees paid/ payable RMB'000**
Audit services	3,890
Non-audit services	0
Total	3,890

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap and Ms. Lau Wai Yee are the joint company secretaries of the Company.

Ms. Lau is a director of Immanuel Consulting Limited, a licensed trust and corporate services provider specialising in integrated business and corporate services. The primary contact person of the Company is Mr. Lu Weifeng, the person in charge of the securities office of the Company.

During the Reporting Period, the joint company secretaries attended sufficient professional training as required under Rule 3.29 of the Listing Rules to update their skills and knowledge.

INVESTOR RELATIONS AND SHAREHOLDERS' ENGAGEMENT

No amendments were made by the Company to the Articles of Association during the Reporting Period. The latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Shareholder Communication Policy

The Company believes that the effective communication with Shareholders is essential to enhance investor relations and deepen investors' understanding of the Group's business performance and strategies. In order to facilitate effective communication, the Company has adopted a Shareholder Communication Policy aiming to establish the mutual relationship and communication between the Company and Shareholders.

(1) Purpose

The Shareholder communication policy is intended to set out provisions aimed at ensuring Shareholders' equal and timely access to corporate information, enabling Shareholders to exercise their rights in an informed manner and allowing them to actively participate in the Company's operations.

(2) General policy

1) The Board will maintain an ongoing dialogue with Shareholders and periodically review the policy to ensure its effectiveness.

2) Information will be communicated to Shareholders through the Company's financial reports, annual and other general meetings that may be held, and disclosures filed with the Stock Exchange.

3) Effective and timely communication of information to Shareholders should be ensured at all times. Any questions related to this policy will be referred to the Company Secretary of the Company.

(3) Communication strategy

1) Shareholder inquiries

A. The Board will maintain an ongoing dialogue with Shareholders and periodically review this policy to ensure its effectiveness.

B. Shareholders may request corporate information at any time as long as such information is publicly available.

C. Shareholders shall be provided with a designated contact person, e-mail address and the Company's inquiry telephone number to enable them to raise any inquiries related to the Company.

2) Corporate communication

Corporate communication means any document issued or to be issued by the Company for Shareholder's information or actions, but is not limited to Directors' reports and annual accounts together with auditors' reports, interim reports, notices of meetings, circulars and proxy forms.

A. Corporate communications should be drawn up in plain language that can be easily understood by Shareholders and be provided to Shareholders in Chinese and English. Shareholders have the right to choose the language (English or Chinese) or the method for receiving corporate communications (hard copy or in electronic form).

B. Shareholders are encouraged to provide the Company with, among other things, their e-mail addresses to facilitate timely and efficient communication.

3) Company website

A. A dedicated investor relations section is available on the Company's website at www.morimatsu-online.com. Information on the Company's website is regularly updated.

B. Information released by the Company to the Stock Exchange is also published on the Company's website immediately thereafter. Such information includes financial statements, performance announcements, circulars and notices of general meetings and related explanatory documents.

C. All presentations provided in connection with the Company's annual general meetings and the annual results announcement should be available on the Company's website.

D. All press releases and Shareholder communications shall be available on the Company's website.

4) General meetings

A. Shareholders are encouraged to attend general meetings or, if they are unable to attend, to appoint proxies to attend and vote on their behalf.

B. Proper arrangements shall be made for annual general meetings to encourage Shareholders' participation.

C. The process of the Company's general meetings will be monitored and reviewed regularly, and if necessary, appropriate changes will be made to ensure that the needs of Shareholders are best served.

D. Members of the Board, in particular, the chairmen of the Board committees or their representatives, relevant senior management and external auditors will attend annual general meetings to answer Shareholders' questions.

E. Shareholders are encouraged to participate in Shareholder activities organized by the Company, and information about the Company, including the latest strategic plans, products and services, will be exchanged at the activities.

(4) Shareholder privacy

The Company recognizes the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, except as required by law.

During the Reporting Period, the main channels for the Company to convey information to Shareholders and investors were the Company's financial reports (interim and annual reports), announcements, circulars and other corporate inquiries available for inspection on the Company's website at www.morimatsu-online.com and the HKExnews website at www.hkexnews.hk, as well as the direct communication platforms provided at annual general meetings. Meanwhile, the Company organizes various activities as needed, including holding briefing sessions for investors/analysts and individual meetings with them, media interviews and investor promotion activities, to promote communication between the Company and Shareholders and investors. Directors and employees of the Company will comply with the relevant disclosure responsibilities and requirements of the Listing Rules whenever they contact or communicate with investors, analysts, the media or other relevant external parties. The Board believes that during the Reporting Period, the Company continued to maintain dialogue with Shareholders and investors, and the Company has ensured the effectiveness of the implementation of the shareholder communication policy, and will regularly review the shareholder communication policy to ensure its continued effectiveness.

Make Enquiries to the Board

Shareholders who wish to make enquiries to the Board should send such enquiries in writing to the Company. The Company does not normally handle verbal or anonymous enquiries.

Contact Information

Shareholders may send the above inquiries or requests in the following manner:

Address:	Unit 26B, 235 Wing Lok Street Trade Centre No. 235 Wing Lok Street, Hong Kong (For the attention of the Board of Directors/Joint Company Secretaries)
Email:	contact@morimatsu-online.com ircontact@morimatsu-online.com
Telephone:	+852 2157 0050

For the avoidance of doubt, Shareholders must deliver and send the original of a duly signed written request, notice or statement or enquiry, as the case may be, to the above address, providing their full name, contact details and identity, in order to be processed. Shareholder information may be disclosed as required by law.

Important Event Log of Shareholders for FY2023

The Company is committed to maintaining sincere and constructive communication with its Shareholders/investors, and providing the Shareholders/investors with the information they need to make informed investment decisions. In order to further maintain and strengthen the effectiveness of the Company's communication with the Shareholders/investors, the Company's important event log for shareholders in the financial year of 2023 is as follows:

First half of 2023

- 2022 annual results announcement
  Results release (also available on live broadcasting)
- Roadshow after results announcement
- Annual General Meeting

Second half of 2023

- 2023 interim results announcement
  Results release (also available on live broadcasting)
- Roadshow after results announcement

Shareholders' Rights

Shareholders are encouraged to attend the general meetings of the Company. To safeguard Shareholders' interests and rights, a separate resolution is proposed for each resolution, including the election of individual Directors, at general meetings. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange in a timely manner after each general meeting.

Convening Extraordinary General Meeting and Putting Forward Proposals

In accordance with the Articles of Association, a shareholder (holding at the date of the requisition not less than 5% of the total voting rights of the Company entitled to vote at a general meeting) may request the Board to call a general meeting of the Company, which the Board must convene such meeting within 21 days of the requisition. Such request must state the general nature of the business to be transacted at the meeting and may include the text of resolutions that may be properly proposed and intended to be proposed at the meeting. Such requests may be sent to the Company in paper or electronic form and must be authenticated by the person making the request. If the Board does not convene a general meeting within the prescribed time, the person making the requisition or the Shareholders representing more than one-half of the total voting rights of all Shareholders may convene a general meeting by themselves in the same manner, and the Company shall reimburse the person making the requisition for all reasonable expenses incurred by the him/her as a result of the failure to convene a meeting by the Board. If at any time the Company does not have any Directors or a quorum of Directors capable of constituting a meeting, any two or more Shareholders holding not less than 10% of the total voting rights of the Company entitled to vote at a general meeting may convene a general meeting in the same manner.

The specific procedures for Shareholders to propose any person for election as a Director of the Company are published on the Company's website.

Dividend Policy

The Board has adopted a dividend policy which provides that the Company in general meeting may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by the Board and subject to applicable laws and regulations and the Articles of Association.

In deciding whether to recommend the payment of dividend to Shareholders, the Board will take into account factors including the following:

(1) general business conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Company;

(2) the financial condition and results of operations of the Group;

(3) the expected capital requirements and future expansion plans of the Group;

(4) future prospects of the Group;

(5) statutory and regulatory restrictions;

(6) contractual restrictions on the payment of dividends by the Group to the Shareholders or by the subsidiaries of the Company to the Company;

(7) payment by the Company's subsidiaries of cash dividends to the Company;

(8) Shareholders' interests; and

(9) other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

Based on the financial results for the Reporting Period and the current cash flow position and capital expenditure plans, the Board is of the opinion that no dividend is recommended for the current Reporting Period, taking into account the considerable capital expenditure requirements arising from business development. The Board will review its financial position from time to time and will make dividend distributions as it considers appropriate in the interests of the Company and its Shareholders.

RISK MANAGEMENT AND INTERNAL CONTROL

We have established a three-tiered risk management and internal control system covering governance, management and execution.

The Board, as the highest decision-making body for risk management and internal control (including financial control, operation control and compliance control), is responsible for assessing and determining the nature and extent of risks that the Company is willing to accept in achieving its strategic objectives, overseeing the design, implementation and monitoring of the risk management and internal control system by the management and reviewing the effectiveness of such system annually to ensure that the Company establishes and maintains an appropriate and effective risk management and internal control system. The Audit Committee is responsible for assisting the Board in performing its audit duties in respect of the Company's risk management and internal control systems. The Board acknowledges that it is responsible for the risk management and internal control systems and the review of the effectiveness of such systems which are designed to manage, not eliminate, the risk of failure to achieve business objectives, and that only reasonable and not absolute assurance can be given that there will be no material misstatement or loss.

The Group has established a risk management team, members of which will combine the Group's actual operation and external environment to organize and analyze risks from five aspects, namely strategy, finance, market, operation and legal, evaluate and discuss to identify significant risks, formulate and implement corresponding risk management strategies and solutions for the identified significant risks, summarize the risk management work for the current year, plan the risk management work for the following year, and continuously adjust the risk management related work according to the management needs with a dynamic approach.

In addition to the above-mentioned significant risk management mechanism, the Group has established a comprehensive risk management and internal control management system, policies and systems to promote and support anti-corruption and anti-fraud laws and regulations, procedures and internal control measures for handling and releasing inside information and established an internal control process framework covering sales and cash collection, procurement and payment, inventory management, environmental protection and production management, research and development and intangible asset management, fixed asset management, capital management, human resources and remuneration management, financial reporting and external information disclosure, information system management and other business processes with continuous improvement to ensure the effective operation of the risk management and internal control system.

The Group has established a dedicated internal audit department to undertake the internal audit function, oversee the design and implementation of internal control policies, analyze and independently evaluate the adequacy and effectiveness of the Group's risk management and internal control system, and report the evaluation results to the Audit Committee. In addition to the internal control and internal audit functions, all employees are responsible for the risk management and internal control within their business areas.

The Group has established a whistleblowing policy and system for employees and those who have a relationship with the Group (e.g. customers and suppliers) to raise concerns in confidence and in an anonymous way to the Audit Committee (or any designated committee with a majority of independent non-executive Directors) about possible improprieties in any matter related to the Company.

The Board considers that the Company's risk management and internal control systems are effective and adequate, and that the resources, employee qualifications and experience, training courses received by employees and related budget of the Group in accounting, internal audit and financial reporting functions and in relation to the issuer's environmental, social and governance performance and reporting are adequate and that there were no material control failures or significant control outcomings during the Reporting Period.

ABOUT THE REPORT

ESG Governance Structure

The Board of the Group is fully aware of its responsibility to protect and enhance long-term Shareholder value, to lead and manage the Group to deliver long-term returns and to make a positive impact on society and the environment. The global health and economic crisis caused by the COVID-19 pandemic has heightened the attention of investors and corporate stakeholders in environmental, social and governance ("**ESG**") matters. ESG is a priority and important factor in measuring a company's non-financial performance, as well as its valuation, risk management and regulatory compliance. Corporate ESG performance is inevitably one of the key criteria for demonstrating a company's corporate social responsibility and future sustainability.

The Group's control and management of ESG-related risks is carried out by members of the Board. By assessing and evaluating ESG-related risks and performance reporting, the Group sets overall strategic objectives, monitors management effectiveness, and ensures reliable business operations and compliance with relevant legal and regulatory requirements. On 14 September 2020, the Group appointed Mr. Kawashima Hirotaka, an executive Director and a member of the Board, to plan, organize and oversee the ESG process, and established an ESG working group composed of the management and the heads of production, sales, procurement, health, safety and environment ("**HSE**") and human resources departments to ensure the specific execution and implementation of the Group's ESG work and strategies.

This ESG report (the "**Report**") collects qualitative information and quantitative data to demonstrate the Group's determination and relevant performance in achieving sustainable development.

Scope of Reporting

This report provides an overview of the Group's sustainability performance by summarizing the policies, management practices and performance of the Group's businesses in the area of corporate social responsibility. The report covers the Group's subsidiaries in Hong Kong, Shanghai, Nantong and Changshu, China, as well as in Sweden, Japan, USA, India, Malaysia, Italy and the Republic of Singapore ("**Singapore**").

Reporting Period

This report describes and highlights the ESG activities, challenges and measures taken by the Group during the Reporting Period.

Reporting Framework

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "**Guide**") as set out in Appendix 27 to the Listing Rules and based on the reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency". This report has complied with the mandatory disclosure requirements and the "comply or explain" provisions of the Guide.

The Group makes every effort to ensure consistency between the Chinese and English versions of this report. However, in case of any inconsistency, the English version shall prevail.

This report has been reviewed and approved by the Board.

STAKEHOLDER ENGAGEMENT

As a responsible enterprise, the Group believes that all stakeholders play their respective roles in driving the development and success of an enterprise, and that good ESG management is important for achieving sustainable development of an enterprise. To foster collaborative relationships with key stakeholders, including government and regulatory bodies, investors, employees, customers, suppliers and the community, the Group actively communicated with stakeholders during the Reporting Period through various channels to exchange views and ideas, and to discuss and review ESG objectives with stakeholders, with the aim of building key business strategies for the Group to drive future growth and address future challenges.

The stakeholder engagement activities conducted by the Group during the Reporting Period are set out below:

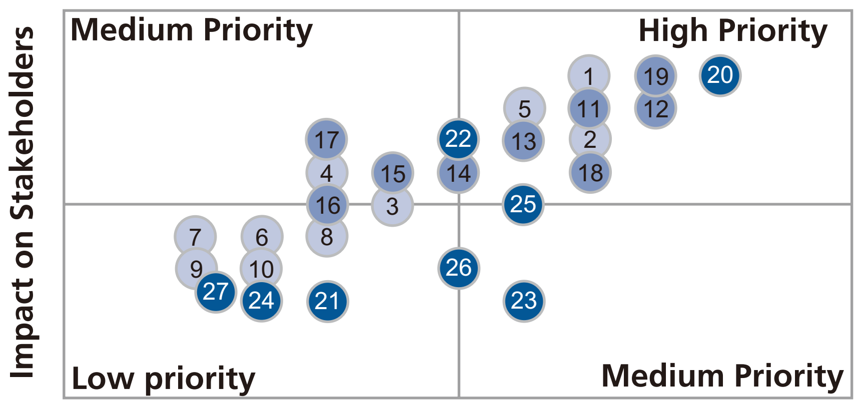
	Government and regulatory authorities	Investors	Employees	Customers	Suppliers	Community
Goals and areas of concern	• Response to relevant national policies and calls • Compliance with various laws and regulations • Scientific and standardized operation • Promote employment • Pay taxes according to law	• Financial results • Development strategies • Exploration of new business • Sustainable corporate development	• Protection of rights and interests • Remunerations and benefits • Safety and health • Career development • Corporate culture	• Provide products and services that meet the needs and create greater value for customers • Information confidentiality	• Comply with business ethics and national laws and regulations • Openness and fairness • Commitment • Work with suppliers to promote sustainable development of the supply chain and achieve win-win cooperation	• Actively participate in community construction • Actively devote to public welfare undertakings
Communication channels and methods	• Dialogue with the local government • Submission of information and documents as required • Compliance inspection including those related to environmental protection • Participation in industry association activities and contribute corporate experience	• The Company's website • Annual reports and interim reports • Board meetings, general meetings, investor meetings • Direct communication with Shareholders	• General manager seminar • Industrial organization • Employee training • Employee activities • Feedback and OA Forum • Corporate publications • Performance evaluation of employees	• The Company's website • On-site visits • Customer satisfaction survey • Complaint hotline	• Selection review • Contract negotiation • Regular review • Daily business communication	• The Company's website • Community activities

	Government and regulatory authorities	Investors	Employees	Customers	Suppliers	Community
Key actions	• Enforce national policies and comply with national laws and regulations • Accept supervision and inspection • Provide more job opportunities • Strictly control the treatment of pollutants • Timely filing of tax returns	• Convene regular general meetings • Convene regular Board meetings • Convene investors meetings • Make timely disclosure of statutory matters • Deepen product and technology innovation and continuously expand new business	• Protect the rights and interests of employees and enhance employee benefits • Improve the working environment of employees • Enhance employee health and safety related training and facility investment • Provide employees with better training related to career development and help them to improve their management and technical skills • Provide employees with a wide range of career development opportunities • Adhere to the people-oriented business philosophy and provide more employee care	• Continuously improve the quality of products and services • Timely feedback and handle customer complaints • Protect customer data and information	• Build a communication platform for suppliers • Improve supplier selection mechanism • Establish an open and transparent tendering mechanism • Provide equal opportunity for suppliers to compete • Improve supplier evaluation	• Participates in disaster relief • Commences employee volunteer activities • Provides students assistance donations • Provides internship opportunities for university students • Charity donations

MATERIALITY ASSESSMENT

Through stakeholder engagement activities and management reviews, the Group has identified the following most significant ESG issues in terms of relevance and materiality, and established priorities for resource allocation to address these issues. The assessment helps to ensure that the Group's business objectives and development direction are in line with the expectations and requirements of the stakeholders.

Materiality Assessment



Environment	Society	Operation
1. Waste water discharge	11. Remuneration and benefits	20. Product quality control system to ensure product health and safety
2. Waste gas emission	12. Occupational health and safety	21. Customer service and complaint handling
3. Dust emission	13. Employee development	22. Customer satisfaction
4. Noise emission	14. Employee training	23. Advertising and labeling of products and services
5. Waste discharge	15. Employee care	24. Protection of customer privacy
6. Risks and opportunities of climate change	16. Equal and no discriminatory working environment	25. Intellectual property rights
7. GHG emissions	17. Prohibition of child labour and forced labour	26. Operation with integrity and honesty
8. Energy consumption	18. Reducing the impact of operations on the community	27. Responsible supply chain
9. Water resource consumption	19. Community investment	
10. Use of materials		

STAKEHOLDERS' FEEDBACK

The Group welcomes your comments and feedback on its ESG performance and approach. Your input is particularly valuable to the Group's continued excellence and sustainability and you are invited to send your questions, comments and suggestions to contact@morimatsu-online.com.

ENVIRONMENTAL PERFORMANCE

The Group considers environmental protection to be an important corporate social responsibility. The Group pays close attention to the promulgation and updating of environmental protection-related laws and regulations in the places where it operates and strictly complies with the requirements of such laws and regulations. The Group has established an environmental management system that complies with the requirements of ISO 14001:2015 standard, formulated and implemented a number of measures to control pollution and protect the environment, publicized and promoted resource conservation and energy consumption reduction through various channels, and raised the awareness of environmental protection among all people involved in order to protect the ecological environment and promote sustainable development, so as to contribute to the creation of a better home for mankind.

Emission Policies and Compliance

The Group has comprehensively identified and assessed the factors that may be involved in environmental impact. The Group has identified various factors that may have an impact on the environment in its production activities (including the production processes like welding, polishing, grinding, cutting, pickling and flaw detection in the workshops) and daily office activities of its employees (including the use of computers, air conditioners and copiers), and conducted risk assessment in five aspects, namely compliance with regulations, frequency of occurrence, scope of impact, degree of impact and social concern, and updated the assessment results annually. The Group has formulated management policies and regulations for different environmental impact factors, such as air pollution prevention and control, water pollution control, waste management and noise pollution prevention and control, and has clearly defined the control measures to be taken by each department to protect the ecological environment of the Group and the surrounding areas. The Group aims to make continuous efforts to reduce the generation of relevant emissions on the premise of ensuring that all emissions comply with relevant laws, regulations and emission standards of the places of operation.

Waste water discharge

In accordance with the relevant laws and regulations, the Group has formulated "Water Pollution Control Management Regulations" (《水污染控制管理規定》) and applied for "Pollution Discharge Permit" (《排污許可證》). For the wastewater generated in the process of acid washing in workshops, the Group discharges it into the acidic wastewater collection pool and discharges it after the water treatment of neutralization to meet the standard. As for domestic sewage, the Group also collects the wastewater centrally and discharges it to the municipal sewage network after treatment by the wastewater treatment facilities in the plant. In order to further enhance the treatment effect of the wastewater generated from the acid washing process in workshops, the Group upgraded the acid mist extraction device in the water pressure tank in 2020 and purchased acidic wastewater treatment equipment in 2021, and formulated contingency plans for the failure of environmental protection facilities. The Group organizes annual testing by third party units with testing qualifications to ensure compliance with emission standards.

During the Reporting Period, the Group discharged approximately 687,501.32 cubic meters of wastewater and did not experience any cases of non-compliance with the effluent discharge standards.

Waste gas emission

In accordance with the relevant laws and regulations, the Group has formulated the "Management Regulations on Prevention and Control of Air Pollution" (《大氣污染防治管理規定》) to prevent and control air pollution. Emission sources related to production activities are mainly natural gas combustion in heat treatment furnaces, diesel fuel used in forklift trucks and emissions generated during painting in paint rooms. The Group strives to explore and promote the use of clean production processes with high energy efficiency and low pollutant emissions to reduce the generation of atmospheric pollutants. For emissions from office and daily lives such as cooking activities in canteen, boiler room operation and official vehicle travel, the Group has adopted measures to reduce emissions by using clean energy, installing emission reduction facilities and optimizing travel routes as far as possible. The Group organizes qualified third parties to conduct annual inspections of stationary emission sources within the plant to ensure compliance with emission standards.

Through the implementation of the above measures, during the Reporting Period, the Group's waste gas emission met the goal set by the Group, and there was no non-compliance of waste gas emissions. Among them, the actual emission of particulate matter was approximately 0.410 tonnes, the actual emission of nitrogen oxides was approximately 2.758 tonnes, the actual emission of sulphur dioxide was approximately 1.735 tonnes, the actual emission of benzene was approximately 0.015 tonnes, the actual emission of toluene was approximately 0.286 tonnes and the actual emission of xylene was approximately 0.428 tonnes.

Dust

Metal dust will be generated during the process of polishing, grinding, cutting, heat treatment and other production operations by employees in the workshop. In view of this, the Group has installed dust collection devices for stationary emission sources and enhanced ventilation and exhaust ventilation in an effort to improve the working environment of the workplace.

During the Reporting Period, the Group did not experience any cases of non-compliance with dust emission standards.

Noise

In the process of workshop processing, the Group will inevitably generate noise, and working under the noise for a long period of time will adversely affect the health of employees. For this purpose, the Group has formulated the "Management Regulations on Prevention of Noise Pollution" (《噪音污染防治管理規定》) in accordance with relevant laws and regulations, and installed soundproof cotton and soundproof panels on noise sources to reduce the impact of noise on employees. At the same time, the Group has also provided labour protection products such as noise reduction earplugs, while employees are required and supervised to wear them properly. The Group organizes qualified third-party units to conduct inspections every year to ensure that the noise level of the plant meets the standards.

During the Reporting Period, there were no instances where the Group's noise level was not up to standard.

Waste

The Group has formulated the "Regulations on Environmental Hygiene and Waste Management" (《環境衛生和廢棄物管理規定》) and "Regulations on Waste Management" (《廢棄物管理規定》), and manages waste based on these regulations to ensure full coverage of control measures throughout the entire process from the source of production to the end disposal of waste.

The Group implements classified waste management, including hazardous waste and non-hazardous waste.

Hazardous waste mainly includes waste mineral oil, waste wipes and packaging, waste fixing solution and waste developing solution, etc. The main control measures adopted by the Group on hazardous waste are as follows:

o Hazardous waste is collected by the designated responsible department, stored in special containers and placed in the dangerous goods storage areas.

o Containers and sites for storing hazardous waste are equipped with corresponding labels and warning signs to achieve proper storage of various types of hazardous waste.

o Contact qualified units to dispose of hazardous waste; the disposal department and the receiving department fill out the "Hazardous Waste Disposal Registration Form"(《危險廢棄物處置登記表》) according to the actual disposal situation, and strictly implement registration management for the disposal of hazardous waste.

Non-hazardous waste mainly includes waste metal residues, domestic waste, kitchen waste and construction waste, etc. The main control measures adopted by the Group for non-hazardous waste are as follows:

o For metal scrap, the Group sets up metal scrap hoppers in the production area to sort and collect metal scrap of different materials or models before sending them to designated storage areas for disposal.

o For domestic garbage, the Group has set up various types of garbage bins in the office area, production area and living area of the plant for collecting dry, wet, recyclable and non-recyclable garbage, which will be cleaned and collected by the cleaning staff to the garbage room for disposal by qualified units.

o For kitchen waste, the canteen contractor will contact a qualified unit for disposal.

o For construction waste, the construction unit is responsible for cleaning and transporting it to the waste storage site.

During the Reporting Period, the Group had achieved the waste reduction goals. The Group generated and effectively disposed of approximately 95.23 tonnes of hazardous waste and approximately 4,094.84 tonnes of non-hazardous waste.

Greenhouse gas emissions

The Group's greenhouse gas emissions mainly come from carbon dioxide generated from the use of purchased electricity, natural gas used in heat treatment furnaces and canteens, etc., and from the diesel fuel for forklift vehicles and gasoline for business vehicles. In addition to controlling emissions directly generated from production and office activities, the Group has taken the following measures to reduce greenhouse gas emissions and contribute to the development of a low-carbon economy.

o Promote the rational use of air conditioning and reduce the use of substances that will damage the ozone layer. The Group restricts the maximum temperature of air conditioning in winter and the minimum temperature of air conditioning in summer, stipulating that air conditioning can be used only when the minimum outdoor temperature is lower than 5°C and the set temperature shall not be higher than 20°C; air conditioning can be used only when the maximum outdoor temperature exceeds 30°C and the set temperature shall not be lower than 26°C.

- Use and promote Internet-based remote office operations such as remote visits and remote inspections to reduce the consumption of oil and gas resources and greenhouse gas emissions caused by unnecessary travel.

- Organize green planting adoption activities for employees to encourage them to plant green plants to improve the office environment and help protect the environment at the same time.

- Refine the control of water, electricity and gas consumption, strengthen the analysis of consumption, and adopt various technologies and management methods to save energy and reduce carbon emissions.

During the Reporting Period, the Group's emitted carbon dioxide has met the emission goal it set. The total carbon dioxide emitted by the Group was approximately 30,187.66 tonnes, of which carbon dioxide emission indirectly caused by energy was approximately 23,605.84 tonnes. (Note: The information is calculated based on the calculated energy consumption including electricity, natural gas, diesel and gasoline, and the carbon emission factors published in the "Guide to Calculating Greenhouse Gas Emissions from Energy Consumption" (《能源消耗引起的溫室氣體排放計算指南》) prepared by the World Energy Institute, but the information is only an estimate as the CO_2 emissions from fuel consumption are closely related to factors such as the composition of the oil and the performance of the engine.)

Use of Resources

The main resources used by the Group include purchased electricity, natural gas used in heat treatment furnaces and canteens, diesel for forklifts, gasoline for official vehicles, production and domestic water and electricity, and product packaging materials. The Group's goals for the use of resources are: with the continuous development of the Group's business, to continuously improve the utilization efficiency of relevant resources, save resources as much as possible, and control resource usage. The Group has formulated the Management Measures for Energy Conservation (《節能管理辦法》) and has taken measures to reduce resource consumption in various aspects, thereby achieving the energy efficiency goals set by the Group.

Electricity resources

The Group pays attention to the management of electricity consumption in daily operation and has taken consumption reduction measures as follows:

- Post energy-saving tips next to the switches of commonly used high-powered equipment to educate employees to reduce unnecessary energy consumption in production and office processes, in order to reduce the environmental impact of operational activities.

- Require employees to power off computers and other peripheral equipment when they are away from the office for more than one hour.

- Require the windows and doors to be closed when opening the air conditioning in winter and summer, and set the air conditioning temperature reasonably.

- For electrical equipment used in production and office, the Group procures energy-saving equipment as far as possible and reduces energy consumption by rationalizing production schedules.

- o The Group actively participated in the pilot project of using clean energy by leasing the roof of the plant to a third-party supplier specializing in solar power generation for the installation of solar panels and using the solar energy converted electricity in the actual production process. (Note: This has effectively increased the Group's use of clean energy, reduced the consumption of purchased electricity, and saved electricity expenses. For example, in the Nantong manufacturing base, solar power usage can account for approximately 36% of the total electricity consumption of the entire manufacturing base in months with sufficient light.)

Water Resources

The Group does not face any issues in the shortage of water supply in its operations, nor does it have any difficulty in finding suitable water sources for its business operations. However, water conservation is becoming an increasingly important issue for the whole society. Therefore, the Group has actively taken the following consumption reduction measures and accomplished the goals for the efficiency of water use.

- o The Group has renovated the drinking water facilities workshops since 2021, changing the water supply through the drinking fountain to direct water supply from the water room through the pipeline, eliminating the need to specifically clean and seal the water drums used in the loop. The Group has set up 61 drinking points, replacing 102 water dispensers that were previously in daily use. After the renovation, the Group estimates to save approximately 80.3 tonnes of pure water for bucket cleaning every year.

- o The Group has integrated the concept of energy saving into the product design and optimised the design of the spray ball for cleaning in the container equipment, which has obvious water saving effect compared with the common spray ball. According to the calculation that a container equipment needs to be cleaned 200 times a year, each equipment can save about 277 tonnes of water per year, and at the same time, the water flow is reduced, thus enabling each equipment to save about 200 kilowatt hours of electricity per year.

Paper resources

As for the paper consumption in the office process, on the one hand, the Group controls the total amount of paper consumption by recording the paper consumption of each department on a monthly basis to reduce waste. On the other hand, the Group advocates paperless office and delivery of materials in electronic form. During the Reporting Period, the cost saved by the Group was approximately RMB91,400 by promoting the delivery of materials in electronic form.

Packaging materials

The Group's products are mainly customized for customers, and the packaging materials used vary, mainly including wooden boxes, rain-proof cloth, iron pallets and wooden pallets. Nevertheless, the Group will reuse eligible and recyclable packaging materials in the course of business development, such as the baskets used by the Group, which can be reused to help to reduce the cost of packaging materials; and the baskets can be stacked in three layers, so as to save transportation space and transportation costs.

Oil and gas resources

The Group's daily operations involving the use of oil and gas resources mainly include the use of diesel fuel for forklift trucks, gasoline and diesel fuel for corporate vehicles and commuter shuttles, the burning of natural gas for heat treatment furnaces, the burning of natural gas for cooking in canteens and the burning of natural gas for boiler room operations. In order to save resources, the Group promotes the use of Internet-based remote work mode in its business activities, such as remote visits and remote inspections, to reduce unnecessary travel; and newly installs charging piles, purchases electric forklifts, and introduces industrial steam into the plants. In addition, the Group actively explores and promotes the use of clean production processes with high energy efficiency and low pollutant emissions, and uses clean, renewable energy wherever possible.

During the Reporting Period, the Group's source consumed data is as follows:

Category	Name	Consumption	Unit	Intensity	Intensity Unit
Water, electricity and gas	Water	763,890.36	Tonnes	117.77	tons/RMB million revenue
	Electricity	30,097.97	Thousands of kilowatt hours (Kwh)	4.64	Thousand kWh/RMB million revenue (including 4,553.66 thousand kWh of photovoltaic electricity)
	Natural gas	2,785,287.88	m^3	429.41	m^3/RMB million revenue
Paper	Printing paper	70.06	Tonnes	0.01	tonnes/RMB million revenue
Packaging materials	Rain-proof cloth/bag	178,281.70	sq.m.	27.49	sq.m./RMB million revenue
	Wooden board/ wooden box	29,351.39	sq.m.	4.53	sq.m./RMB million revenue
	Wooden cubes/ wooden brackets	1,032.70	sq.m.	0.16	m^3/RMB million revenue
	Iron saddle/frame	1,289.24	Tonnes	0.20	tonnes/RMB million revenue
	Tray	8,057.81	sq.m.	1.24	sq.m./RMB million revenue
	Drying agent	35,123.65	kg	5.42	kg/RMB million revenue
	Packing Tape/ Plywood Tape	1,775.00	m	0.27	m/RMB million revenue
Fuel consumption	Petrol	62,417.09	Litre	0.09	litre/km
	Diesel	47,981.68	Litre	7.40	litre/RMB million revenue

Environmental and natural resources

The Group is not in a highly polluting industry, its production technology and processes do not involve significant pollution emissions and its business does not involve direct access to natural resources. However, the Group still attaches great importance to environmental protection and resource conservation, and focus on environmental protection-related investments. During the Reporting Period, the Group's environmental protection expenses were mainly related to three aspects: (1) environmental protection tax and emission fees of approximately RMB427,900; (2) environmental protection equipment and construction in progress of approximately RMB13,453,100; and (3) environmental protection-related external service fees of approximately RMB1,047,100.

Climate Change

The World Economic Forum's Global Risks Report 2022 (17th edition) (《2022年全球風險報告》（第17版）) highlights that environmental risks are seen as the world's five most serious long-term threats and are also most likely to have devastating impacts on humans and the planet, among which "failure of climate action" and "extreme weather events" ranked the top two. Climate change has become the biggest environmental and development challenge faced by human society on a global scale, and the Group is aware that different climate change development trends will have different impacts on the Group's operations.

Climate-related risks include transition risks related to a low-carbon economy and physical risks related to the impact of climate changes. However, opportunities are always accompanied by risks. Taking into account the relevant risks identified by the Working Group on Climate-related Financial Information Disclosure, the Group has identified the following climate change risks related to the Group. The Group actively responds to climate change by reducing energy consumption, meeting pollutant emission standards, recycling packaging and other auxiliary materials, from the perspectives of process technology optimization, equipment energy efficiency improvement, and green ecological product design, with a view to reducing the impact of its operations on the environment, so as to achieve green and low-carbon development. The Group also helps business partners contribute to the fight against climate change by providing products and services to customers in fields such as renewable energy and environmental protection. During the Reporting Period, the Group cooperated with a well-known clothing retail company and provided it with recycling equipment for used clothing which is mainly used to decompose recycled second-hand clothing, reintegrate and reuse clothing fabrics, for the purpose of saving resources and reducing pollution.

Transition Risks	
Political and legal risks Technical risks Market risks Reputation risks	With the in-depth understanding of climate change from all walks of life, various relevant government policies, laws and regulations will be implemented accordingly. As an international enterprise, the Group may see rising energy prices in the places where it operates, which may increase the Group's operating costs; energy use caps may be set, and the prices for greenhouse gas emissions may be continuously increased, thus restricting the expansion of the Group's production capacity and increasing operating costs. Stakeholders also tend to pay more and more attention to climate change, and the failure to meet the expectations of stakeholders will affect the reputation of the Group and lower the market enthusiasm of the Group.

Physical Risks	
Extreme weather events	The frequent occurrence of extreme weather will have a direct impact on production premises, infrastructure, employee commuting and transportation, which will affect the production plan and product delivery of the Group.
Long-term changes in climate patterns	Long-term changes in climate patterns such as persistent high temperature will affect the production safety of employees in high-temperature environment. In order to maintain the temperature of the production environment, the Group's energy consumption will increase; and giving employees high-temperature subsidies and insurance will increase the Group's labour costs.

SOCIAL PERFORMANCE

Employment Policy and Care for Employee

Human resources are considered to be a valuable asset of the Group as employees play an important role in providing design and development, processing and manufacturing, value-added services and customer liaison.

The Group strictly complies with the relevant employment laws and regulations in the places where it operates, and has established regulations and systems such as the Employee Handbook, the Recruitment Management System and the Holiday Management System. To promote a quality and diverse team, the Group provides equal opportunities to its employees in recruitment, training and development, job promotion and remuneration and benefits. The Group not only recruits in the society, but also in various institutions of higher education and professional schools. The Group will consider a number of factors when recruiting employees, including but not limited to their experience in related industries, major, education background and the Group's business needs, but the Group's recruitment will not be affected by age, gender, marital and family status, race, skin color, region, nationality, religious belief and political affiliation. The Group provides employees with rich job opportunities according to the positions of different nature, including domestic and overseas job opportunities. The Group has also set up open promotion channels for different business lines and positions to assist employees in their personal career planning and development, and strive to achieve a win-win situation for the Company and the employees. When an employee resigns, the Group will organize work handover in accordance with the regulations, and each process will be reviewed and signed by the corresponding person in charge; the Group will also get to understand the reasons for the employee's resignation through the relevant person in charge, listen to the opinions of the employees, and continuously improve the level of operation and management.

The Group has formulated a sound performance appraisal system and policies on remuneration and benefits of the employees, and implemented a performance appraisal method that integrates the "Balanced Score Card (BSC)" and "Key Performance Indicator (KPI)" to conduct monthly, semi-annual and annual work performance assessments on employees under the principles of fairness and justice and in accordance with the prescribed operating procedures, so as to make comprehensive assessments the employees' work performance, business capabilities, etc., and take the assessment results as an important basis for bonus distribution, salary adjustment, job promotion, and selection and evaluation of employees. The Group pays labour remunerations to employees on time and in full every month, and pays various insurances according to law, and provides employees with various allowances (job allowance, qualification allowance, high temperature allowance, etc.), subsidies (rental subsidies, night shift subsidies, etc.), gift money, consolation money, assessment bonuses and year-end bonuses and other remuneration and benefits; for employees who meet specific conditions, the Group will provide them with supplementary pensions and commercial insurance for accidents, critical illnesses, and health; for employees who have served the Group for a long time and made outstanding contributions, the Group will provide additional rewards in kind or in cash. The Group attaches great importance to the reasonable arrangement of workload and working hours, guarantees employees' rights to rest and vacation, strictly controls the approval of overtime applications, and prevents overtime hours exceeding the legal standards; in addition for public holidays and rest days, the Group provides employees with annual leave, marriage leave, maternity leave, sick leave, personal leave, condolence leave and family leave. As at 31 December 2022, the total number of employees of the Group was 4,142 and the composition of employees is summarized in the table below.

Employment of active employees by age and gender:

Classification	30 and below	31–40	41–50	Over 50	Male	Female	Total number of employees
Age	1,332	1,800	718	292	/	/	4,142
Gender	/	/	/	/	3,428	714	4,142

Employment of active employees by region:

Classification	Shanghai	Jiangsu	Wuhan	Hong Kong	Sweden	India	Japan	USA	Italy	Malaysia	Total number of employees
Region	2,272	1,518	185	2	11	53	30	3	3	65	4,142

Employment of active employees by employment type:

Classification	Permanent	Contract	Total number of employees
Employment type	3,872	270	4,142

During the Reporting Period, the Group has been upholding a people-oriented management philosophy and has launched various caring activities such as staff medical check-ups, staff birthday parties every month, housekeeping services, caring vehicles, etc. Donations have been raised for employees in difficulties or suffering from illnesses. With the above, the Group demonstrated love and care to its employees from their work to their lives in hopes of increasing the satisfaction and sense of belonging of its employees. In order to help families with both parents working with the Group solve the problem of unattended children during summer vacation, the Group has held 5 consecutive sessions of summer care classes, which was one of the first batch of "Employee Parent-Child Studios (職工親子工作室)" listed by the Shanghai Federation of Trade Unions (上海市總工會), and won the title of "Loving Summer Care School of National Trade Union (全國工會愛心暑托班)". In order to consolidate (promote) the construction of a gender equality mechanism, solve female employees' worries about the work after childbirth, and provide pregnant and breastfeeding female employees with a more comfortable place to rest, the Group has established a "mother and baby room", which was awarded the title of "Four-Star Loving Mommy House (四星級愛心媽咪小屋)" by the Female Workers Committee of the Shanghai Federation of Trade Unions in May 2019. Nevertheless, due to the challenging and competitive recruitment and retention process in the industry, 599 employees left the Group's employ during the Reporting Period (the "**Former Employees**"), and the relevant information of the Former Employees is as follows:

Former Employees by age and gender:

Classification	30 and below	31–40	41–50	Over 50	Male	Female	Total number of employees
Age	299	243	46	11	/	/	599
Gender	/	/	/	/	519	80	599

Former Employees by region:

Classification	Shanghai	Jiangsu	Wuhan	Sweden	Italy	India	Japan	USA	Malaysia	Total number of employees
Region	317	234	17	2	0	13	0	2	14	599

Occupational health and safety policies and compliance

The Group is concerned about the well-being of its employees and is committed to providing a safe, healthy and secure working environment for them. The Group complies with the relevant occupational health and safety regulations in the regions in which it operates, has formulated a series of management systems including the Management Regulations on Occupational Health and Safety (《職業健康安全管理規定》), the Management System for Occupational Health Monitoring and Filing (《職業健康監護及檔案管理制度》), the Management Regulations on Labour Protection Articles (《勞動防護用品管理規定》), the Management System for Safety Production (《安全生產管理制度》), the Procedures for Equipment Operation Safety (《設備安全操作規程》) and the Management System for Shift Handover Safety (《交接班安全管理制度》), and has established an occupational health and safety management system that meets the requirements of the ISO 45001:2018 standard, and introduced "5S" (i.e. Seiri (sorting), Seiton (rectification), Seisou (clearing), Seiketu (cleaning) and Shitsuke (quality)) management activities to standardize work processes, ensure work safety, and maintain a harmonious management atmosphere. The Group has established a safety management committee and an HSE department, which are specifically responsible for managing issues related to environmental protection and safety production. The Group identifies and summarizes risk factors from the aspects of operation area, operation content, accident type and possible hazards, and evaluates the risk levels based on the possibility, frequency, consequence and degree of danger of these risk factors. According to different risk levels, the Group strictly implements relevant management systems to ensure the occupational health and safety of employees during safe operation. At the same time, in order to prevent the occurrence of danger, the Group has also clarified the control measures that each responsible department needs to take, and formulated emergency plans for prevention and control.

The Group regularly and irregularly conducts various forms of safety education and training for employees, including safety education for those who return to work and are assigned to different positions, safety education for special types of work, and daily safety education. The Group requires that employees who have not received safety education, on-the-job training, or failed to pass the training and assessment shall not be allowed to work, so as to further ensure the safety of employees in the production process. The Group organizes employees to carry out health checkups every year, establishes employee health files, and organizes occupational disease checkups for employees of special types of work. For outsiders, the Group requires that they must receive safety training and risk prevention introduction before entering the workshop. The Group also arranges construction safety training, on-site physical examination, and purchase of insurance for the personnel who stay with suppliers. In addition to internal training, the Group hires external lecturers to introduce the latest HSE-related policies and requirements every year, and puts forward issues that need special attention or can be improved based on the actual situation in the work, thereby effectively improving the safety awareness of employees and the level of corporate safety management.

During the Reporting Period, the Group had 19 work-related accidents, resulting in a total of 804 lost working days. In the past three years (including the Reporting Period), the Group recorded 1 work-related fatality, which was caused by gravity dumping during the handling of the liquid storage module.

To further improve the occupational safety environment and prevent the recurrence of similar accidents, the Group continuously improves and strengthens internal control measures, including (1) neatly arranging equipment and materials in the workplace and keeping the workplace clean and tidy; (2) adopting more appropriate workflow and operation regulations, requiring employees to identify risks and hazards during on-site operations, strictly enforcing operation procedures and eliminating illegal operations; (3) enhancing training on occupational health and safety for employees; and (4) strengthening inspections by section supervisors and team leaders to eliminate potential hazards in a timely manner.

Human Capital Development and Training Policy

As a valuable asset of the enterprise, employees are vital to the growth and success of the enterprise. The Group has formulated an effective talent strategy. For details, please refer to the section headed "Management Discussion and Analysis" in this annual report. The Group has set up a dedicated department, the Training Center, to coordinate training resources, formulate annual training plans at the company level, and organize various forms of internal and external training. At the end of each year, the head of each department of the Group will formulate the training plan for the following year according to the business development needs and organize various training within the department.

The Group not only provides training to its employees in all aspects of business operations, including work safety, sales and marketing, compliance with applicable laws and regulations, technical skills, product quality and management, but also provides training related to career development planning to create a learning organization with continuous learning and growth for all employees with the goal of mutual development of both employees and the Group. In 2018, the Group established an internal training organization, Morimatsu University, which aims to uphold legacy including corporate culture and values, transmission of technology, management and business wisdom, cultivate and improve employees' work skills and management talents, and grow the Group's talent pool. In addition to the Group's internal senior management and technical staff, Morimatsu University also employs professionals in related fields or professors and lecturers from renowned universities.

The employee training data is as follows:

Employee category	Gender	Percentage of employees trained	Average training hours
Employees engaged in production work	Male	100%	18.46 hours/person
	Female	100%	17.24 hours/person
Employees not engaged in production work	Male	100%	17.35 hours/person
	Female	100%	16.65 hours/person

Labour Practices and Compliance

The Group abides by the applicable laws and regulations on employment, protection of minors, prohibition of child labour and prohibition of forced labour in the regions where it operates, strengthens communication with employees during recruitment, entry procedures and daily operation, and strictly verifies the resumes of employees and identity information to avoid child labour and forced labour. During the Reporting Period, the Group had no incidents of child labour or forced labour.

Supply Chain Management

The Group has established strict selection and admission criteria for suppliers of raw materials and components, including qualifications, scale and facility standards, technical quality, product quality, price, delivery capability, labour conditions and employee relations, site management, environmental review and after-sales service, etc. The "Supplier Comprehensive Capability Evaluation Form" (《供應商綜合能力評審表》) is prepared and scored according to the scoring criteria. Only potential suppliers that meet the Group's selection criteria are admitted into its qualified suppliers list. The Group has entered into framework agreements with some of its better-qualified suppliers and subcontractors for common parts, consumables, welding consumables, outsourced processing to establish stable and long-term business relationships. According to the purpose and frequency of purchasing materials from suppliers, the Group divides suppliers into three categories: suppliers of main materials, suppliers of non-important materials and suppliers of auxiliary materials and consumables. For the first two types of suppliers, in addition to the need for review before being included in the list of qualified suppliers, the Group will conduct annual assessments for them every year, which focus on the performance of these suppliers in terms of environmental protection (including the use of environment friendly products/services), employee workplace, employee relations, labour protection, etc. For suppliers who fail to pass the annual assessment, the Group will give them a chance to rectify the situation and will organize a re-assessment after the suppliers have completed the rectification. If those suppliers fail to pass the re-assessment, the Group will remove them from the list of qualified suppliers. For the existing suppliers with which the Group has had no business relationship for a long time, the Group will remove them during the annual assessment, and conduct inspections as needed. If necessary, it will also conduct on-site evaluation and compile a "Supplier Evaluation Report". The Group will also sign integrity cooperation agreements with suppliers.

As at 31 December 2022, the Group had approximately 1,692 suppliers related to production activities, of which approximately 1,591 were domestic suppliers and 101 were overseas suppliers. The domestic suppliers include 23 in Northeast China, 90 in North China, 1,346 in East China, 43 in South China, 31 in Central China, 32 in Northwest China and 26 in Southwest China. Overseas suppliers are located in the USA, Japan, the Federal Republic of Germany, the French Republic, Swiss Confederation, Singapore and the United Kingdom.

Product Responsibility

The Group strictly abides by the laws and regulations applicable to product responsibility, advertising, labeling, and privacy protection in the regions where it operates, and the Group's product quality control system has passed the ISO 9001:2015 standard certification, and at the same time, the Group has adopted the Plan-Do-Check-Act cycle as its management philosophy to continuously improve product quality and product quality control by monitoring and measuring all aspects of the production management process through various regular and irregular inspections.

The products sold by the Group are all non-standard products customized by customers. Thanks to the continuous communication with customers during the design, construction and acceptance of projects, the Group did not have any recalls of sold or delivered products for safety and health reasons during the Reporting Period. The Group distributes the Customer Satisfaction Survey Form to customers every year to collect customer feedback. The assessment satisfaction is divided into A, i.e. very satisfied, B, i.e. satisfied, C, i.e. average, D, i.e. relatively dissatisfied, E, i.e. dissatisfied and give up. During the Reporting Period, the Group issued a total of 4,472 Customer Satisfaction Survey Forms, of which 74 chose give up, and the remaining satisfaction results are: 69.42% chose A, i.e. very satisfied, 29.01% chose B, i.e. satisfied, 1.18% chose C, i.e. average, and 0.34% chose D, i.e. relatively dissatisfied, and 0.05% chose dissatisfied, and the overall customer satisfaction rate was 98.43%. The Group has set up an after-sales service department to receive complaints from customers and 18 complaints were received during the Reporting Period in relation to products and services. After receiving the complaints from customers, the after-sales service department worked with the relevant departments to discuss the substance of the problems, formulate solutions and implement rectification to ensure customer satisfaction. At the same time, the Group will determine the responsibility, identify the specific department responsible, formulate preventive and corrective measures, and provide training to relevant personnel to prevent the recurrence of the problem.

During the Reporting Period, there were no incidents of false advertising and misrepresentation in respect of advertising and labelling by the Group.

Data Protection and Privacy Policies

The Group is committed to protecting the privacy of its customers, employees, partners and suppliers by maintaining a secure and reliable data retention environment. The Group has designated a Confidentiality Implementation Policy (《保密工作實施細則》) and a confidentiality working group which is responsible for the daily coordination, supervision and inspection of confidentiality to ensure the highest standards of data security and protection. The Group's employees can only access the relevant confidential information within the scope of their duties and have the obligation and responsibility to keep such information confidential. The Group's information management department is responsible for standardizing the Group's computer user accounts, passwords and hardware and software configurations to prevent unauthorized access to confidential information by employees.

During the Reporting Period, all personal and business data collected in the Group's business activities were properly collated and protected.

Protection of Intellectual Property Rights

In order to better serve our customers and enhance the competitiveness of our products, the Group attaches great importance to the development and maintenance of intellectual property rights. The Group has established an intellectual property rights team, which is composed of dedicated staff and representatives from each research and development project group. During its business operation, the Group respects the intellectual property rights of other companies or individuals, and also actively develops and protects the Group's intellectual property rights through technology exploration and patent applications.

During the Reporting Period, there was no material infringement of intellectual property rights by the Group and the Group believes that it has taken all reasonable measures to prevent any infringement of its own intellectual property rights and those of its third parties.

Anti-corruption policies

The Group is committed to supporting its corporate values by adhering to the highest standards of business ethics, integrity and fairness in the management of all its businesses. The Group strictly abides by the laws and regulations related to business ethics in the places where it operates, and has formulated integrity management mechanisms such as the Integrity Agreement (《廉潔協議》), Confidentiality Agreement (《保密協議》), Anti-bribery and Anti-corruption Management System (《反賄賂及反腐敗管理制度》), and Anti-Fraud Management System (《反舞弊管理制度》), requiring all Directors and employees to abide by ethical rules when engaging in the Group's business activities and must not request and receive benefits from, or offer benefits to, customers, contractors, suppliers or persons with whom the Group has business relationships. To prevent risks related to anti-corruption and anti-bribery, the Group has taken the following measures:

- The code of conduct for employees clearly includes the code of conduct related to anti-corruption and anti-bribery.

- Implement adequate financial controls and strictly comply with segregation of duties and authorization approval requirements for payment disbursements.

- Strengthen controls in non-financial areas such as procurement, operation, sales, human resources, legal and regulatory activities. For example, for sales activities, at least two persons are required to participate in bid evaluation and signing of sales contracts; for procurement activities, more than two bidders are required to conduct fair and transparent bidding before confirming suppliers and signing procurement contracts; and strict registration and approval management shall be implemented for activities like offering gifts and business entertainment.

- Require business partners to implement anti-bribery control measures, sign integrity agreements with suppliers, and require business partners to make anti-bribery commitments.

- Sign integrity agreement with employees, and employees are required to regularly report conflicts of interest such as external investment.

- Regularly conduct education and training on anti-corruption and anti-bribery to raise the awareness of anticorruption and anti-bribery compliance among directors and employees.

- Conduct regular compliance checks on high-risk projects, activities, business partners, employees in specific positions, etc.

- Establish reporting hotline, general manager mailbox and audit committee mailbox to encourage employees, business partners and other stakeholders to report intended, suspected or actual acts of bribery, and establish a reporting process and investigation mechanism.

During the Reporting Period, the Group had no anti-corruption and anti-corruption related litigation cases and there were no improper business practices in the Group's business activities.

Community investment

The Group actively participates in community construction and social welfare, and strives to build a harmonious relationship with the community to achieve the harmonious development of the enterprise and the community. In China, the Group, East China University of Science and Technology and Zhengzhou University have set up the "Morimatsu Class", which not only provides scholarships and corporate internship opportunities for the students of the "Morimatsu Class", but also sends experienced engineers to give lectures, and share cutting-edge technologies and industry development trends, striving to break through the academic and professional barriers of colleges and universities, and cultivate cross-sector talents who are proficient in interdisciplinary knowledge for the entire industry; the Group cooperates with Shanghai Jiaotong University, East China University of Science and Technology and other colleges and universities for research and development, to, on the one hand, provide a practical platform for theoretical research and technical practice in colleges and universities, and, on the other hand, improve the research and development capabilities and efficiency of the Group, optimize the design of pressure equipment, improve product quality, and maintain a competitive advantage; the Group provides student internship positions to Shanghai Jiaotong University, East China University of Science and Technology, University of Shanghai for Science and Technology and Nanjing Tech University, providing training opportunities for college students to practice theories. In Japan, the Group donated JPY3 million to Kyoto University, JPY5 million to Tokyo University of Agriculture and Technology, JPY7 million to Yamaguchi University, JPY3 million to Tohoku University, JPY1 million for Osaka Metropolitan University, and JPY0.5 million to Kagoshima University, all of which were used for the development and application of related technologies in the fields of new materials, advanced industrial equipment and bio-engineering. In order to give back to the society, the Group actively participated in the action of Hundreds of Enterprises and Hundreds of Villages Together on the Road to Revitalization (百企聯百村　共走振興路) organized by the Rural Work Leading Group of Rugao Committee of the Communist Party of China, Jiangsu Province, and donated RMB30,000 and 200 trash cans worth approximately RMB24,100 to Tianwang Village; during the lockdown period in Shanghai, the Group donated RMB10,000 to the Shanghai Charity Foundation; the Group donated USD6,000 to the United Way Foundation of Metropolitan Dallas. In addition, the Group actively participated in the charity sales organized by Shanghai Qingcongquan Children's Intelligence Training Center (上海青聰泉兒童智能訓練中心) to support its rehabilitation training for autistic children.

The Group also encourages its staff to participate in social welfare and charitable activities in their spare time to contribute to the community with their own strengths. In addition, the Group will continue to look for opportunities to contribute to charitable donations or community activities to help promote and strengthen community development.

KEY PERFORMANCE INDEX ("KPI") REFERENCE TABLE

Reference KPI of the ESG Guide	Corresponding KPIs in the sections of the Report
A. ENVIRONMENTAL	
A1: Emissions	**Emissions Policies and Compliance**
	Waste water discharge
	Waste gas emission
	Dust
	Noise
	Waste
	GHG emissions
A2: Use of Resources	**Electricity resources**
	Water resources
	Paper resources
	Packaging materials
	Oil and gas resources
A3: Environmental and natural resources	**Environmental and natural resources**
A4: Climate Change	**Climate change**
B. Social	
Employment and Labour Practices	
B1: Employment	**Employment policy and employee care**
B2: Health and Safety	**Occupational health and safety policies and compliance**
B3: Development and Training	**Human capital development and training policy**
B4: Labour Standards	**Labour practices and compliance**
Operating Practices	
B5: Supply Chain Management	**Supply chain management**
B6: Product Responsibility	**Product responsibility**
	Data protection and privacy policies
	Protection of intellectual property rights
B7: Anti-corruption	**Anti-corruption policies**
Community	
B8: Community Investment	**Community investment**

Independent auditor's report to the shareholders of
Morimatsu International Holdings Company Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Morimatsu International Holdings Company Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 118 to 217, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Revenue recognition

Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 151 to 154 (Note 1(v)).

The Key Audit Matter	How the matter was addressed in our audit
The principal activities of the Group are the production and sales of various pressure equipment. The Group designs and manufactures the pressure equipment in accordance with the customer's specification which does not have an alternative use to the Group. Revenue is recognised when a performance obligation is satisfied i.e. when "control" of the goods or services underlying the performance obligation is transferred to the customer. For contracts which the Group has a right to be paid for work done to date in the event a customer decides to cancel the contract before the contract was fully completed, revenue arising from the contract, and a corresponding contract asset are recognised progressively over time. Contract costs are recognised when work is performed, together with any provisions for expected contract losses. The recognition of revenue and profit relies on management's estimate of the final outcome of each contract, which involves the exercise of significant management judgement, particularly in forecasting the costs to complete a contract, in valuing contract variations and in estimating the adequacy of provision of onerous contracts.	Our audit procedures to assess the recognition of revenue on sales of pressure equipment and related service included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition; • inspecting key customer contracts to identify performance obligations and terms and conditions relating to goods acceptance and the right of return in order to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • for contracts which the Group has a right to be paid for work done to date, — inspecting the terms of customer contracts, on a sample basis, to evaluate whether criteria for recognising revenue over time is met;

KEY AUDIT MATTERS *(Continued)*

Revenue recognition *(Continued)*

Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 151 to 154 (Note 1(v)).

The Key Audit Matter	How the matter was addressed in our audit
For the sale of customised pressurised equipment that the Group does not have the right to be paid for work performed to date, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenue is recognised when the customer takes possession of and accepts the products. The progress towards complete satisfaction of a performance obligation is mainly measured based on cost-to-cost method, based on the proportion of the actual costs incurred relative to the estimated total costs. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there may be an incentive for management to advance or delay the timing of revenue recognition to the incorrect accounting period to meet performance expectations or targets. It is also because there are a variety of contract terms regarding the Group's sales of pressure equipment and provision of related service and the determination whether revenue should be recognised over time or at a point of time involves significant judgement, especially for the revenue recognized over time. In particular, for contracts which the Group has a right to be paid for work done to date the estimation of total costs to complete contracts is inherently subjective and requires significant management judgement and estimation.	— discussing with management the performance of the major contracts in progress which revenue was recognised over time during the year and challenging the key assumptions adopted in the forecast of contract costs, including estimated costs of completion, the recognition of variation orders and the adequacy of provision of onerous contracts, by comparing with contract agreements and sub-contracts, confirmations from and correspondence with customers regarding contract variations and claims; — obtaining a detailed breakdown of the total estimated costs to completion for major contracts in progress which revenue was recognised over time during the year and comparing, on a sample basis, actual costs incurred to-date and cost estimates to agreements, certifications or correspondence with subcontractors and suppliers and other documentation referred to by management in the assessment of the estimated costs to completion; — on sample basis, re-performing the calculation of the revenue recognised over time for the year ended 31 December 2022 based on the Group's revenue recognition policies;

KEY AUDIT MATTERS *(Continued)*

Revenue recognition *(Continued)*

Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 151 to 154 (Note 1(v)).

The Key Audit Matter	How the matter was addressed in our audit
	• for contracts which the Group does not have a right to be paid for work done to date, — comparing, on a sample basis, revenue transactions recorded during the year with goods acceptance notes, invoices, sales contracts and other underlying documents to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies; — comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying goods delivery and acceptance notes to assess whether the related revenue had been recognised in accordance with the terms of the sales contracts and in the correct financial period; and — obtaining confirmation from customers directly of, on a sample basis, total contract amount, accumulated invoiced amount, accumulated received payments and accumulated amount of goods delivered during the financial year.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yue Tat Wai.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
22 March 2023

Consolidated statement of profit or loss

	Note	Year ended 31 December **2022** **RMB'000**	 2021 RMB'000 (restated) (Note)
Revenue	3	**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	4	**(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	29(a)	**(100)**	(2,803)
Profit from operations		**781,593**	471,969
Finance costs	5(a)	**(15,951)**	(22,794)
Shares of results of associates	14	**(2)**	—
Shares of results of joint venture	15	**(4,723)**	(32)
Profit before taxation	5	**760,917**	449,143
Income tax	6(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	13	**(3,084)**	—
Profit for the year		**666,182**	381,838
Earnings per share	9		
Basic (RMB)		**0.64**	0.43
Diluted (RMB)		**0.58**	0.38

Note: The Group has restated the comparative information as a result of the business combination under common control as set out in Note 1(c).

The notes on pages 125 to 217 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December **2022** **RMB'000**	 2021 RMB'000 (restated) (Note)
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	13	**(3,084)**	—
Total comprehensive income for the year		**665,449**	371,635

Note: The Group has restated the comparative information as a result of the business combination under common control as set out in Note 1(c).

The notes on pages 125 to 217 form part of these financial statements.

Consolidated Statement of Financial Position

	Note	As at 31 December 2022 RMB'000	2021 RMB'000 (restated) (Note)
Non-current assets			
Property, plant and equipment	10	**1,609,565**	1,227,021
Right-of-use assets	11	**198,888**	106,758
Intangible assets	12	**31,079**	33,702
Interests in associates	14	**20,016**	—
Interest in joint venture	15	**6,155**	10,878
Financial assets measured at fair value through profit or loss ("**FVPL**")	29(e)	**10,000**	—
Deferred tax assets	24(b)	**7,120**	—
Other non-current assets	16	**243,212**	15,975
		2,126,035	1,394,334
Current assets			
Inventories	17	**2,213,728**	1,229,633
Contract assets	18(a)	**830,927**	609,515
Trade and other receivables	19	**1,165,785**	921,456
Financial assets measured at fair value through profit or loss ("**FVPL**")	29(e)	**253,748**	695
Cash and cash equivalents	20	**1,370,359**	1,548,875
		5,834,547	4,310,174
Current liabilities			
Trade and other payables	21	**1,633,543**	1,094,663
Contract liabilities	18(b)	**2,890,048**	2,171,901
Financial liabilities measured at fair value through profit or loss ("**FVPL**")	29(e)	**1,240**	—
Interest-bearing borrowings	22	**254,599**	370,002
Lease liabilities	23	**6,059**	2,528
Current taxation	24(a)	**68,467**	33,881
Provisions	25	**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: The Group has restated the comparative information as a result of the business combination under common control as set out in Note 1(c).

The notes on pages 125 to 217 form part of these financial statements.

	Note	As at 31 December 2022 RMB'000	2021 RMB'000 (restated) (Note)
Non-current liabilities			
Interest-bearing borrowings	22	**189,634**	—
Lease liabilities	23	**17,104**	1,883
Deferred tax liabilities	24(b)	**9,358**	4,126
Deferred income	26	**42,434**	353
		258,530	6,362
Net assets		**2,822,646**	2,007,809
Capital and reserves	28		
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	13	**6,916**	—
Total equity		**2,822,646**	2,007,809

Note: The Group has restated the comparative information as a result of the business combination under common control as set out in Note 1(c).

Approved and authorised for issue by the board of directors on 22 March 2023.

Weihua Tang)
) *Directors*
Kawashima Hirotaka)

The notes on pages 125 to 217 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000 Note 28(b)	Treasury stock RMB'000 Note 28(b)	Capital reserve RMB'000 Note 28(f)	Other reserve RMB'000 Note 28(g)	PRC statutory reserve RMB'000 Note 28(d)	Exchange reserve RMB'000 Note 28(c)	Retained earnings RMB'000	Total equity RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company									
Balance at 31 December 2021 and 1 January 2022 as restated		**571,769**	**–**	**500,692**	**8,837**	**37,871**	**(7,028)**	**895,668**	**2,007,809**	**–**	**2,007,809**
Profit for the year		–	–	–	–	–	–	669,266	669,266	(3,084)	666,182
Other comprehensive income for the year		–	–	–	–	–	(733)	–	(733)	–	(733)
Total comprehensive income for the year		–	–	–	–	–	(733)	669,266	668,533	(3,084)	665,449
Appropriation to PRC statutory reserve		–	–	–	–	4,299	–	(4,299)	–	–	–
Investment from non-controlling shareholder		–	–	–	–	–	–	–	–	10,000	10,000
Equity settled share-based payment	27	–	–	139,387	–	–	–	–	139,387	–	139,387
Issuance of ordinary shares to the Company	28(b)(i)	36,581	(36,581)	–	–	–	–	–	–	–	–
Exercise of share option	28(b)(ii)	35,307	1	(35,307)	–	–	–	–	1	–	1
Balance at 31 December 2022		**643,657**	**(36,580)**	**604,772**	**8,837**	**42,170**	**(7,761)**	**1,560,635**	**2,815,730**	**6,916**	**2,822,646**

The notes on pages 125 to 217 from part of these financial statements.

		Attributable to equity shareholders of the Company						
	Note	Share capital RMB'000 Note 28(b)	Capital reserve RMB'000 Note 28(f)	Other reserve RMB'000 Note 28(g)	PRC statutory reserve RMB'000 Note 28(d)	Exchange reserve RMB'000 Note 28(c)	Retained earnings RMB'000	Total equity RMB'000
Balance at 31 December 2020 and 1 January 2021		173	433,141	—	31,381	3,175	530,442	998,312
Adjustments arising from adoption of merger accounting		—	—	8,837	—	—	(10,122)	(1,285)
As restated (Note)		173	433,141	8,837	31,381	3,175	520,320	997,027
Profit for the year (restated)		—	—	—	—	—	381,838	381,838
Other comprehensive income for the year (restated)		—	—	—	—	(10,203)	—	(10,203)
Total comprehensive income for the year (restated)		—	—	—	—	(10,203)	381,838	371,635
Appropriation to PRC statutory reserve		—	—	—	6,490	—	(6,490)	—
Issuance of ordinary shares upon initial public offering	27	571,596	—	—	—	—	—	571,596
Equity-settled share-based payment	27	—	67,551	—	—	—	—	67,551
Balance at 31 December 2021 (restated)		571,769	500,692	8,837	37,871	(7,028)	895,668	2,007,809

Note: The Group has restated the comparative information as a result of the business combination under common control as set out in Note 1(c).

The notes on pages 125 to 217 form part of these financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000 (restated) (Note)
Operating activities:			
Cash generated from operations		**967,183**	1,211,601
Income tax paid	24(a)	**(62,037)**	(36,535)
Net cash generated from operating activities	20(b)	**905,146**	1,175,066
Investing activities:			
Payment for the purchase of long-term assets		**(867,054)**	(443,462)
Proceeds from sale of property, plant and equipment and intangible assets		**1,124**	819
Cash paid for acquisition of subsidiary		**(8,187)**	—
Cash receivable from acquisition of subsidiary		**7,120**	—
Payment for an equity method investment		**(30,018)**	(10,910)
Payment for the purchase of monetary fund		**(252,800)**	—
Proceeds from disposal of monetary fund		**8,627**	—
Net cash payment for settlement of forward exchange contracts		**(22,772)**	3,299
Interest received		**15,259**	2,123
Net cash used in investing activities		**(1,148,701)**	(448,131)
Financing activities:			
Capital element of lease rentals paid	20(c)	**(7,149)**	(2,078)
Proceeds from bank loans	20(c)	**430,922**	482,333
Repayment of bank loans	20(c)	**(363,481)**	(554,066)
Proceeds from issue of shares		**1**	571,596
Cash received from non-controlling shareholder		**10,000**	—
Interest element of lease rentals paid	20(c)	**(538)**	(111)
Interest paid	20(c)	**(12,705)**	(22,683)
Dividend paid		**—**	(30,000)
Net cash generated from financing activities		**57,050**	444,991
Effect of foreign exchange rate changes on cash and cash equivalents		**7,989**	(50,172)
Net (decrease)/increase in cash and cash equivalents		**(178,516)**	1,121,754
Cash and cash equivalents at 1 January		**1,548,875**	427,121
Cash and cash equivalents at 31 December		**1,370,359**	1,548,875

Note: The Group has restated the comparative information as a result of the business combination under common control as set out in Note 1(c).

The notes on pages 125 to 217 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(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 Company and its subsidiaries (together referred to as 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(Note 1(g)(ii));

— Monetary fund (Note 1(g)(i)); and

— Forward exchange contracts (Note 1(h)).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2.

(c) Merger accounting and restatements

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Merger accounting and restatements *(Continued)*

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

The effects of the application of merger accounting on the consolidated statement of profit or loss for the year ended 31 December 2021 are as follows:

	Note	For the year ended 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000	For the year ended 31 December 2021 as restated RMB'000
Revenue	3	4,278,847	7,375	4,286,222
Cost of sales		(3,102,476)	(163)	(3,102,639)
Gross profit		1,176,371	7,212	1,183,583
Other income	4	4,832	1,044	5,876
Selling and marketing expenses		(106,507)	(52)	(106,559)
General and administrative expenses		(374,620)	(6,880)	(381,500)
Research and development expenses		(226,628)	—	(226,628)
Impairment losses on trade receivables and contract assets		(2,803)	—	(2,803)
Profit from operations		470,645	1,324	471,969
Finance costs	5(a)	(22,789)	(5)	(22,794)
Shares of results of joint venture		(32)	—	(32)
Profit before taxation	5	447,824	1,319	449,143
Income tax	6(a)	(67,272)	(33)	(67,305)
Profit for the year		380,552	1,286	381,838
Attributable to:				
Equity shareholders of the Company		380,552	1,286	381,838
Profit for the year		380,552	1,286	381,838
Earnings per share	9			
Basic (RMB)		0.43	—	0.43
Diluted (RMB)		0.38	—	0.38

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Merger accounting and restatements *(Continued)*

	For the year ended 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000	For the year ended 31 December 2021 as restated RMB'000
Profit for the year	380,552	1,286	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	(5,625)	—	(5,625)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland China	(4,094)	(484)	(4,578)
Other comprehensive income for the year	(9,719)	(484)	(10,203)
Total comprehensive income for the year	370,833	802	371,635
Attributable to:			
Equity shareholders of the Company	370,833	802	371,635
Total comprehensive income for the year	370,833	802	371,635

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Merger accounting and restatements *(Continued)*

The effects of the application of merger accounting on the consolidated statement of financial position as at 31 December 2021 are as follows:

	Note	As at 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000	As at 31 December 2021 as restated RMB'000
Non-current assets				
Property, plant and equipment	10	1,226,951	70	1,227,021
Right-of-use assets	11	106,225	533	106,758
Intangible assets		33,702	—	33,702
Interest in joint venture		10,878	—	10,878
Other non-current assets		15,967	8	15,975
		1,393,723	611	1,394,334
Current assets				
Inventories		1,229,633	—	1,229,633
Contract assets		609,515	—	609,515
Trade and other receivables	19	916,679	4,777	921,456
Financial assets measured at fair value through profit or loss ("**FVPL**")		695	—	695
Cash and cash equivalents	20	1,545,079	3,796	1,548,875
		4,301,601	8,573	4,310,174
Current liabilities				
Trade and other payables	21	1,085,560	9,103	1,094,663
Contract liabilities		2,171,901	—	2,171,901
Interest-bearing borrowings		370,002	—	370,002
Lease liabilities	23	2,338	190	2,528
Current taxation	24(a)	33,854	27	33,881
Provisions		17,362	—	17,362
		3,681,017	9,320	3,690,337
Net current assets		620,584	(747)	619,837
Total assets less current liabilities		2,014,307	(136)	2,014,171

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Merger accounting and restatements *(Continued)*

	Note	As at 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000	As at 31 December 2021 as restated RMB'000
Non-current liabilities				
Lease liabilities	23	1,536	347	1,883
Deferred tax liabilities		4,126	—	4,126
Deferred income		353	—	353
		6,015	347	6,362
Net assets		2,008,292	(483)	2,007,809
Capital and reserves				
Share capital		571,769	—	571,769
Reserves		1,436,523	(483)	1,436,040
Total equity attributable to equity shareholders of the Company		2,008,292	(483)	2,007,809
Non-controlling interests		—	—	—
Total equity		2,008,292	(483)	2,007,809

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Merger accounting and restatements *(Continued)*

The effects of the application of merger accounting on the consolidated statement of cash flows for the year ended 31 December 2021 are as follows:

	For the year ended 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000	For the year ended 31 December 2021 as restated RMB'000
Operating activities:			
Cash generated from operations	1,210,247	1,354	1,211,601
Income tax paid	(36,529)	(6)	(36,535)
Net cash generated from operating activities	1,173,718	1,348	1,175,066
Investing activities:			
Payment for the purchase of property, plant and equipment	(443,462)	—	(443,462)
Proceeds from sale of property, plant and equipment and intangible assets	819	—	819
Payment for an equity method investment	(10,910)	—	(10,910)
Cash received from disposal of financial assets measured at FVPL	3,299	—	3,299
Interest received	2,123	—	2,123
Net cash used in investing activities	(448,131)	—	(448,131)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Merger accounting and restatements *(Continued)*

	Note	For the year ended 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000	For the year ended 31 December 2021 as restated RMB'000
Financing activities:				
Capital element of lease rentals paid		(2,016)	(62)	(2,078)
Proceeds from bank loans		482,333	—	482,333
Repayment of bank loans		(554,066)	—	(554,066)
Proceeds from issue of shares		571,596	—	571,596
Interest element of lease rentals paid	20(c)	(106)	(5)	(111)
Interest paid		(22,683)	—	(22,683)
Dividend paid		(30,000)	—	(30,000)
Net cash generated from financing activities		445,058	(67)	444,991
Effect of foreign exchange rate changes on cash and cash equivalents		(49,994)	(178)	(50,172)
Net increase in cash and cash equivalents		1,120,651	1,103	1,121,754
Cash and cash equivalents at 1 January		424,428	2,693	427,121
Cash and cash equivalents at 31 December		1,545,079	3,796	1,548,875

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 1(q) or (r) depending on the nature of the liability.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries and non-controlling interests *(Continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 1(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(l)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Associates and joint ventures *(Continued)*

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(g)).

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the group determines fair value of financial instruments, see Note 29(e). These investments are subsequently accounted for as follows, depending on their classification.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in debt and equity securities *(Continued)*

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 1(v)(iv)).

— fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 1(v)(iii).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Property, plant and equipment

The following items of property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see Note 1(l)(ii)):

— right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 1(x)).

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Plant and buildings	20 years
—	Machinery and equipment	10 years
—	Office and other equipment	3–5 years
—	Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 1(l)(ii)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property, plant and equipment *(Continued)*

Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(l)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Design software and Enterprise Resource Planning ("**ERP**") software	10 years
—	Office administrative software	3–5 years
—	Patents and trademarks	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 1(i) and 1(l)(ii)), except for the following types of right-of-use asset:

— right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with Note 1(h); and

— right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with Note 1(l).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see Notes 1(g)(i), 1(v)(ii) and 1(l)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

Depreciation is calculated to write off the cost or valuation of items of right-of-use assets, using the straight-line method over the unexpired term of lease.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 1(v)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 1(l)(i), then the Group classifies the sub-lease as an operating lease.

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

— contract assets as defined in HKFRS 15 (see Note 1(n)); and

— lease receivables

Other financial assets measured at fair value, including equity and debt securities measured at FVPL, and derivative financial assets, are not subject to the ECL assessment.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(Continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with Note 1(v)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— right-of-use assets;

— intangible assets and

— investment in subsidiaries in the Company's statements of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets *(Continued)*

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 1(l)(i)).

(m) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost of raw material is calculated using the weighted average cost formula, cost of work in progress is calculated using the specific identification method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 1(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 1(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 1(o)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 1(v)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 1(o)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 1(n)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are stated at amortised cost using the effective interest method and including an allowance for credit losses (see Note 1(l)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 1(u)(i).

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 1(l)(i).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(x)).

(s) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Provisions, contingent liabilities and onerous contracts *(Continued)*

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract..

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Revenue and other income *(Continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of pressure equipment and related services

The Group recognised revenue when (or as) a performance obligation is satisfied. i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Control is transferred over time and revenue is recognised over time measuring to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Groups performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group designs and manufactures the pressure equipment in accordance with the customer's specification which does not have an alternative use to the Group. Under contracts for which the Group has a right to be paid for work done to date in the event a customer decides to cancel the contract before the contract was fully completed, revenue arising from the contract, and a corresponding contract asset (see Note 1(n)), are recognised progressively over time. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see Note 1(o)).

The progress towards complete satisfaction of a performance obligation is mainly measured based on cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

For the sale of customized pressurized equipment that the Group does not have the right to be paid for work performed to date, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenue is recognised when the customer takes possession of and accepts the products.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Revenue and other income *(Continued)*

(i) Sales of pressure equipment and related services *(Continued)*

For the sale of raw materials and scrap materials, revenue is recognised at a point in time when the customer obtains control of the products, which is generally when the customer takes possession of and accepts the products.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional (see Note 1(n)). It is assessed for impairment in accordance with HKFRS 9 (see Note1(l)(i)).

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(l)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Revenue and other income *(Continued)*

(v) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised as income in the profit or loss on a straight-line basis over the useful life of the related asset.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(aa) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Determining the lease term

As explained in policy Note 1(k), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Sources of estimation uncertainty

Significant sources of estimation uncertainty are as follows:

(i) Revenue recognition

As explained in policy Note 1(v), recognition of revenue and profit recognised over time on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date.

Based on the Group's recent experience and the nature of the manufacturing and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in Note 18 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Warranty provisions

As explained in Note 25, the Group makes provisions under the warranties it gives on sale of its pressure equipment taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

3 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 3(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.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(i) Disaggregation of revenue *(Continued)*

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 3(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 year ended 31 December 2022 (2021: one). Revenues from this customer during year ended 31 December 2022 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.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(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.

4 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.

5 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 (Note 27)	**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 PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

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

5 PROFIT BEFORE TAXATION *(Continued)*

	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 (Note 25)	**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 5(b).

(ii) Cost of inventories included staff costs of RMB 538,824, 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 5(b).

6 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	
	Note	**2022**	2021
		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

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS *(Continued)*

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

(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 Morimatsu AB 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 Corporate 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 India, Pharmadule Engineering India Private Limited 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 Engineering India Private Limited as the company did not have income subject to Indian Corporate Tax during the reporting period.

Pursuant to the income tax rules and regulations of Japan, Morimatsu Technology And Service Company Limited was 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. 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 S.R.L. 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, the branch of Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd., was established on 27 April 2022, which 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 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
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (上海森松製藥設備工程有限公司)	15%	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.

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS *(Continued)*

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

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

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

7 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2022

	Director's fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 Note 27	Total RMB'000
Executive directors							
Mr. Wei Hua Tang	144	321	2,199	62	2,726	4,413	7,139
Mr. Ye Sheng	144	267	2,353	62	2,826	4,413	7,239
Mr. Koei Nishimatsu	144	2,461	595	—	3,200	6,305	9,505
Mr. Jungo Hirazawa	144	950	71	—	1,165	1,894	3,059
Mr. Hirotaka Kawashima	144	1,469	379	—	1,992	2,206	4,198
Non-executive director							
Mr. Terumoto Matsuhisa	161	—	—	—	161	9,366	9,527
Independent directors							
Ms. Chan Yuen Sau Kelly	161	—	—	—	161	—	161
Mr. Kanno Shinichiro	161	—	—	—	161	—	161
Mr. Yu Jianguo	161	—	—	—	161	—	161
	1,364	5,468	5,597	124	12,553	28,597	41,150

7 DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2021

	Director's fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 Note 27	Total RMB'000
Executive directors							
Mr. Wei Hua Tang	144	314	1,521	57	2,036	4,041	6,077
Mr. Ye Sheng	144	260	1,559	57	2,020	4,041	6,061
Mr. Koei Nishimatsu	144	1,639	425	—	2,208	5,774	7,982
Mr. Jungo Hirazawa	144	969	65	—	1,178	1,735	2,913
Mr. Hirotaka Kawashima	144	1,075	237	—	1,456	2,021	3,477
Non-executive director							
Mr. Terumoto Matsuhisa	75	—	—	—	75	8,578	8,653
Independent directors							
Ms. Chan Yuen Sau Kelly	75	—	—	—	75	—	75
Mr. Kanno Shinichiro	75	—	—	—	75	—	75
Mr. Yu Jianguo	75	—	—	—	75	—	75
	1,020	4,257	3,807	114	9,198	26,190	35,388

Mr. Wei Hua Tang, Mr. Ye Sheng, Mr. Koei Nishimatsu, Mr. Jungo Hirazawa, and Mr. Hirotaka Kawashima were appointed as executive director of the Company on 1 September 2020. Mr. Terumoto Matsuhisa was appointed as non-executive director of the Company on 1 September 2020. They are also key management personnel of the Group during the reporting period. The remuneration disclosed above include those for services rendered by them as key management personnel.

During 2022 and 2021, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals set out in Note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

Ms. Chan Yuen Sau Kelly, Mr. Kanno Shinichiro and Mr. Yu Jianguo were appointed as independent non-executive directors on 10 February 2021.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the years ended 31 December 2022, three are directors (2021: three) whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the remaining two individuals during 2022 (2021: two) are as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Salaries and other emoluments	**555**	542
Discretionary bonuses	**2,517**	2,391
Share-based payments (Note 27)	**8,193**	7,504
Retirement scheme contributions	**124**	113
	11,389	10,550

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	Year ended 31 December	
	2022	2021
HKD5,500,001 – HKD6,000,000	**—**	1
HKD6,000,001 – HKD6,500,000	**1**	—
HKD6,500,001 – HKD7,000,000	**1**	—
HKD7,000,001 – HKD7,500,000	**—**	1

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

Weighted average number of ordinary shares

	2022	2021
Issued ordinary 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 ordinary shares at 31 December	**1,050,774,000**	895,034,000

note (i): The number of ordinary shares outstanding before the bonus issue completed on 31 May 2021 (Note 27(b)) was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the bonus issue had occurred at the beginning of the earliest period presented.

note (ii): From listing to the end of 2021, a total of 287,500,000 shares were issued at HK$2.48 per share, raising HK$713,000,000 in total.

note (iii): The number of ordinary 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.

9 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB669,266,000 (2021(restated): RMB381,838,000) and the weighted average number of ordinary 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 ordinary shares (diluted)

	2022	2021
Weighted average number of ordinary 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 (Note 27)	**105,325,000**	109,362,000
Weighted average number of ordinary shares (diluted) at 31 December	**1,156,099,000**	1,004,396,000

10 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2021	848,909	262,713	81,900	18,664	43,889	1,256,075
Adjustments arising from adoption of merger accounting	—	—	234	—	—	234
As restated	848,909	262,713	82,134	18,664	43,889	1,256,309
Additions	—	20,187	14,105	3,493	426,164	463,949
Transfer from construction in progress	20,609	30,294	466	—	(51,369)	—
Disposals	—	(1,623)	(2,090)	(946)	(326)	(4,985)
At 31 December 2021 and 1 January 2022 as restated	**869,518**	**311,571**	**94,615**	**21,211**	**418,358**	**1,715,273**
Additions	**—**	**27,868**	**21,384**	**1,044**	**423,170**	**473,466**
Transfer from construction in progress	**350,647**	**93,748**	**5,396**	**2,124**	**(451,915)**	**—**
Disposals	**—**	**(2,155)**	**(668)**	**(30)**	**(127)**	**(2,980)**
At 31 December 2022	**1,220,165**	**431,032**	**120,727**	**24,349**	**389,486**	**2,185,759**
Accumulated depreciation:						
At 1 January 2021	(218,813)	(131,322)	(56,239)	(11,174)	—	(417,548)
Adjustments arising from adoption of merger accounting	—	—	(148)	—	—	(148)
As restated	(218,813)	(131,322)	(56,387)	(11,174)	—	(417,696)
Charge for the year (restated)	(38,651)	(23,723)	(9,540)	(2,462)	—	(74,376)
Written back on disposal	—	1,278	1,690	852	—	3,820
At 31 December 2021 and 1 January 2022 as restated	**(257,464)**	**(153,767)**	**(64,237)**	**(12,784)**	**—**	**(488,252)**
Charge for the year	**(46,587)**	**(27,475)**	**(12,563)**	**(3,043)**	**—**	**(89,668)**
Written back on disposal	**—**	**1,110**	**589**	**27**	**—**	**1,726**
At 31 December 2022	**(304,051)**	**(180,132)**	**(76,211)**	**(15,800)**	**—**	**(576,194)**
Net book Value:						
At 31 December 2022	**916,114**	**250,900**	**44,516**	**8,549**	**389,486**	**1,609,565**
At 31 December 2021 as restated	612,054	157,804	30,378	8,427	418,358	1,227,021
At 31 December 2021	612,054	157,804	30,308	8,427	418,358	1,226,951

11 RIGHT-OF-USE ASSETS

	Land use right RMB'000	Leasehold plant and buildings RMB'000	Machinery and equipment RMB'000	Total RMB'000
Balance at 1 January 2021	105,289	2,332	230	107,851
Additions (restated)	—	3,874	—	3,874
Depreciation charge for the year (restated)	(2,814)	(2,081)	(72)	(4,967)
Balance at 31 December 2021 and 1 January 2022 as restated	102,475	4,125	158	106,758
Additions	75,849	24,225	831	100,905
Depreciation charge for the year	(3,498)	(5,079)	(198)	(8,775)
Balance at 31 December 2022	**174,826**	**23,271**	**791**	**198,888**

The Group has obtained land use rights held for own use in Mainland China with remaining lease term of 30 to 50 years.

12 INTANGIBLE ASSETS

	Software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:			
At 1 January 2021	45,665	—	45,665
Additions	16,434	1,300	17,734
Transfer from construction in progress	493	(493)	—
Disposals	(6,344)	—	(6,344)
At 31 December 2021 and 1 January 2022	**56,248**	**807**	**57,055**
Additions	**12,876**	**—**	**12,876**
Transfer from construction in progress	**394**	**(394)**	**—**
Disposals	**(8,746)**	**—**	**(8,746)**
At 31 December 2022	**60,772**	**413**	**61,185**
Accumulated amortisation:			
At 1 January 2021	(15,764)	—	(15,764)
Charge for the year	(13,669)	—	(13,669)
Written back on disposal	6,080	—	6,080
At 31 December 2021 and 1 January 2022	**(23,353)**	**—**	**(23,353)**
Charge for the year	**(15,371)**	**—**	**(15,371)**
Written back on disposal	**8,618**	**—**	**8,618**
At 31 December 2022	**(30,106)**	**—**	**(30,106)**
Net book value:			
At 31 December 2022	**30,666**	**413**	**31,079**
At 31 December 2021	32,895	807	33,702

Design software and ERP software are expected to be used for 10 years.

Office administrative software are expected to be used for 3 to 5 years.

The amortisation charge for the year is included in "General and administrative expenses" and "Research and development expenses" in the consolidated statement of profit or loss.

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation, date of incorporation/business combination under the common control	Registered capital/ issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Pharmadule Engineering India Private Limited ("**Pharmadule India**")	India 15 May 2017	INR 49,990,000/ INR 49,990,000	—	100%	Purchase of materials and design of pressure equipment
Pharmadule Morimatsu AB ("**Pharmadule Sweden**")	Sweden 3 March 2011	SEK 2,000,000/ SEK 2,000,000	100%	—	Designing and engineering of modular manufacturing facilities for the pharmaceutical, biopharmaceutical and fast-moving consumer goods industries.
Morimatsu Investment Company Limited ("**Morimatsu Investment HK**")	Hong Kong 30 September 2013	USD129,000/ USD129,000	—	100%	Investment holding
Morimatsu (China) Investment Co., Ltd. ("**Morimatsu China**") (森松（中國）投資有限公司) *#	The PRC 07 June 2010	USD103,009,000/ USD103,009,000	100%	—	Investment holding
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("**Morimatsu Heavy Industry**") (森松（江蘇）重工有限公司)*#	The PRC 13 May 2008	USD141,378,000/ USD141,378,000	—	100%	Chemical industry, oil and gas refining, metallurgy, water treatment, new energy and other industries related to traditional pressure equipment (reactor, heat exchanger, vessel, tower) and modular pressure equipment.
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (上海森松製藥設備工程有限公司)*#	The PRC 29 November 2001	USD8,000,000/ USD8,000,000	—	100%	Process equipment and modular process system and facility in pharmaceutical and consumer goods industry.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation, date of incorporation/business combination under the common control	Registered capital/ issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Pharmadule Morimatsu Inc ("**Pharmadule US**")	USA 30 June 2011	USD5,000/ USD5,000	—	100%	Sales center, after-sales service center and purchasing center of SMP and Pharmadule Morimatsu AB in the United States.
Morimatsu Technology And Service Company Limited ("**Morimatsu Japan**")	Japan 31 January 2014	JPY50,000,000/ JPY50,000,000	100%	—	Sales activities for the Group's products in Japan.
Morimatsu Italy S.R.L. ("**Morimatsu Italy**")	Italy 26 November 2020	EUR 200,000/ EUR 200,000	—	100%	Sales activities for the Group's products in Italy.
Morimatsu (Suzhou) LifeScience Co., Ltd. ("**Morimatsu LifeScience**") (森松（蘇州）生命科技有限公司)*#	The PRC 26 September 2021	HKD780,000,000/ HKD320,500,000	100%	—	Designing and engineering of modular manufacturing facilities for the pharmaceutical and biopharmaceutical industries.
Shanghai Morimatsu Engineering Technology Co., Ltd. ("**Morimatsu Engineering**") (上海森松工程技術有限公司)*#	The PRC 19 November 2021	RMB10,000,000/ RMB1,200,000	—	100%	Designing of modular manufacturing facilities.
Shanghai Morimatsu Biotechnology Co., Ltd. ("**Morimatsu Biotechnology**") (上海森松生物科技有限公司)*	The PRC 17 January 2022	RMB50,000,000/ RMB26,250,000	—	72.25%	Research and development of biological technology and the manufacturing and sales of related special equipment
Shanghai Mori-Biounion Technology Co., Ltd. ("**Mori-Biounion Technology**") (上海森眾生物技術有限公司)*	The PRC 24 May 2022	RMB41,300,000/ RMB34,500,000	—	42.86%**	Provision of biotechnology consulting and services, as well as the production and sales of related products
Morimatsu Houston Corporate	USA 28 February 2022 (business combination under the common control)	USD300,000/ USD300,000		100%	Sales activities for the Group's products in USA.

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

\# These entities are wholly foreign owned enterprises established in the PRC.

** Mori-Biounion Technology is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to Morimatsu Biotechnology and Mori-Biounion Technology, the subsidiaries of the group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2022 RMB'000 Morimatsu Biotechnology	**2022 RMB'000 Mori-Biounion Technology**
NCI percentage	21.17% (17 January 2022 to 6 June 2022)/ 27.75% (7 June 2022 to 31 December 2022)	53.24% (24 May 2022 to 6 June 2022)/ 57.14% (7 June 2022 to 31 December 2022)
Current assets	21,368	22,302
Non-current assets	24,945	25,244
Current liabilities	(24,702)	(3,841)
Non-current liabilities	—	(12,360)
Net assets	21,611	31,345
Carrying amount of NCI	(1,281)	8,197
Revenue	2,393	(147)
Profit from the year	(4,639)	(3,156)
Total comprehensive income for the year	(4,639)	(3,156)
Profit allocated to NCI	(1,281)	(1,803)
Cash flows from operating activities	14,195	(2,515)
Cash flows from investing activities	(28,041)	(13,252)
Cash flows from financing activities	26,250	33,472

Pursuant to the written resolution dated on 30 May 2022, Morimatsu Biotechnology involved a new investor, Shanghai Jinwen Enterprise Consultation Management Partnership (Limited Partnership), and the registered capital increased from RMB8,975,000 to RMB50,000,000 which resulted in a decrease of shareholding ratio of the Group from 78.83% to 72.25%.

Since the Group holds Mori-Biounion Technology through Morimatsu Biotechnology indirectly, the shareholding ratio of Mori-Biounion Technology has changed accordingly.

The changes in the ownership interest in Morimatsu Biotechnology and Mori-Biounion Technology that do not result in a loss of control.

14 INTEREST IN ASSOCIATES

Details of the Group's interest in the associates, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of associates	Forms of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Groups' effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Jiangsu Qunchuang Wisdom New Material Co., Ltd. ("江蘇群創智慧新材料有限公司")	Incorporated	The PRC	RMB300,000,000/ RMB40,000,000	20.00%	20.00%	Research and development, manufacturing and sales of new membrane materials
Mori-Union Microchannel Industrial Equipment Co., Ltd. ("上海森聯微通工業裝備有限公司")	Incorporated	The PRC	RMB10,000,000/ RMB50,000	36.00%	36.00%	Research and development of microchannel reactors

Jiangsu Qunchuang Wisdom New Material Co., Ltd. ("**Jiangsu Qunchuang**") was established on 1 July 2022 by Morimatsu Pharmaceutical Equipment with two other investors in China. The registered capital of the company is RMB300,000,000. Morimatsu Pharmaceutical Equipment holds 20% equity interest of the company. Jiangsu Qunchuang Wisdom New Material Co., Ltd. is mainly engaged in the research and development, manufacturing and sales of new membrane materials. The capital of RMB20,000,000 from Morimatsu Pharmaceutical Equipment has been injected into the company.

Mori-Union Microchannel Industrial Equipment Co., Ltd. ("**Mori-Union Microchannel**") was established on 11 July 2022 by Morimatsu Heavy Industry with three other investors in China. The registered capital of the company is RMB10,000,000. Morimatsu Heavy Industry holds 36% equity interest of the company. Mori-Union Microchannel Industrial Equipment Co., Ltd. is mainly engaged in the research and development of microchannel reactors. The capital of RMB18,000 has been injected into the company.

The Group accounts for Jiangsu Qunchuang and Mori-Union Microchannel as an investment in associates using the equity method in the consolidated financial statements of the Group under applicable financial reporting standards.

Jiangsu Qunchuang and Mori-Union Microchannel are unlisted corporate entities whose quoted market price is not available.

Jiangsu Qunchuang and Mori-Union Microchannel are still under start-up process and has not started normal operation. The total comprehensive losses are RMB9,000 and RMB2,000, and the net assets of RMB39,991,000 and RMB48,000 are mainly paid up capital.

The amount of RMB69,661,000 has been authorised but not contracted for as capital expenditure as at 31 December 2022 for Jiangsu Qunchuang.

The amount of nil has been authorised but not contracted for as capital expenditure as at 31 December 2022 for Mori-Union Microchannel.

15 INTEREST IN JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Forms of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Groups' effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Morimatsu Dialog (Malaysia) SDN. BHD.	Incorporated	Malaysia	RM 14,000,000	51.00%	51.00%	Manufacturing of equipment and modular process system and facility

Morimatsu Dialog (Malaysia) SDN. BHD. ("**Morimatsu Dialog**") was established on 14 September 2021 by Morimatsu Japan with a joint venturer in Malaysia, to carry out the Group's manufacturing activity in Malaysia. Morimatsu Dialog is mainly engaged in the manufacturing of equipment and modular process system and facility.

The Group accounts for Morimatsu Dialog as an investment in a joint venture using the equity method in the consolidated financial statements of the Group under applicable financial reporting standards, as Morimatsu Dialog is under joint control.

Morimatsu Dialog, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

15 INTEREST IN JOINT VENTURE *(Continued)*

	Morimatsu Dialog (Malaysia) SDN. BHD.	
	2022	2021
	RMB'000	RMB'000
Gross amount of the joint venture		
Current assets	**11,188**	21,395
Non current assets	**2,925**	—
Current liabilities	**(1,358)**	(86)
Equity	**(12,755)**	(21,309)
Included in the above assets and liabilities:		
Cash and cash equivalents	**10,093**	21,372
Revenue	**3,939**	—
Loss from continuing operations	**9,260**	64
Total comprehensive loss	**9,260**	64
Included in the above profit:		
Depreciation and amortisation	**282**	—
Reconciled to the Group's interests in the joint venture		
Gross amount of net asset of the joint venture	**12,755**	21,309
Groups' effective interest	**51.00%**	51.00%
Group's share of net assets of the joint venture	**6,505**	10,868
Currency translation difference	**(350)**	10
Carrying amount in the consolidated financial statements	**6,155**	10,878

The amount of nil has been authorised but not contracted for as capital expenditure as at 31 December 2022.

16 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

17 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Raw materials	**585,982**	330,331
Work in progress	**1,627,746**	899,302
	2,213,728	1,229,633

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Carrying amount of inventories sold	**4,688,814**	3,098,961
Write-down of inventories	**4,171**	5,174
Reversal of write-down of inventories	**(94)**	(1,659)
Recognised in research and development expenses	**144,488**	94,706
	4,837,379	3,197,182

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value as a result of changes in contract prices.

18 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
		(restated)
Contract assets		
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 19)	**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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Contract liabilities		
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**

19 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.

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(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. Further details on the Group's credit policy and credit risk rising from trade debtors are set out in Note 29(a).

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
		(restated)
Deposits with banks	**100,993**	43,101
Cash at banks and on hand	**1,269,366**	1,505,774
	1,370,359	1,548,875

As at 31 December 2022, the Group did not have deposits (as at 31 December 2021: RMB2,896,000) pledged to banks.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000 (restated)
Profit before taxation		**760,917**	449,143
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	**89,668**	74,376
Depreciation of right of use assets	5(c)	**8,775**	4,967
Amortisation of intangible assets	5(c)	**15,371**	13,669
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets	4	**1,103**	610
Changes in fair value of financial assets and liabilities	4	**292**	(695)
Interest income	4	**(15,259)**	(2,123)
Net foreign exchange (gains)/losses		**(4,642)**	39,172
Finance costs	5(a)	**15,951**	22,794
Share of results of joint venture	15	**4,723**	32
Share of results of associate	14	**2**	—
Equity-settled share-based payment expenses	5(b)	**139,387**	67,551
Net realised loss/(gains) on financial assets measured at fair value through profit or loss	4	**14,840**	(3,992)
Changes in working capital			
(Increase)/decrease in deferred tax assets	24	**(7,120)**	745
Increase in deferred tax liabilities	24	**5,232**	1,854
Increase in inventories	17	**(984,095)**	(425,564)
Increase in contract assets	18	**(221,412)**	(363,454)
Increase in trade and other receivables	19	**(275,810)**	(396,458)
Decrease in other non-current assets		**1,544**	725
Increase in contract liabilities	18	**718,147**	1,329,252
Increase in trade and other payables	21	**587,363**	359,059
Increase/(decrease) for deferred income	26	**42,081**	(46)
Increase in provisions	25	**8,088**	3,449
Net cash flows generated from operating activities		**905,146**	**1,175,066**

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000
	(Note 22)	(Note 23)	
At 1 January 2021	443,532	2,616	446,148
Changes from financing cash flows:			
Proceeds from bank loans	482,333	—	482,333
Capital element of lease rentals paid (restated)	—	(2,078)	(2,078)
Interest element of lease rentals paid (restated)	—	(111)	(111)
Repayment of bank loans	(554,066)	—	(554,066)
Interest paid	(22,683)	—	(22,683)
Total changes from financing cash flows (restated)	(94,416)	(2,189)	(96,605)
Exchange adjustment	(1,797)	—	(1,797)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	3,873	3,873
Interest expenses (Note 5(a))(restated)	22,683	111	22,794
Total other changes	**22,683**	**3,984**	**26,667**

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank loans and other borrowings RMB'000 (Note 22)	Lease liabilities RMB'000 (Note 23)	Total RMB'000
At 31 December 2021 and 1 January 2022 as restated	**370,002**	**4,411**	**374,413**
Changes from financing cash flows:			
Proceeds from bank loans	**430,922**	**—**	**430,922**
Capital element of lease rentals paid	**—**	**(7,149)**	**(7,149)**
Interest element of lease rentals paid	**—**	**(538)**	**(538)**
Repayment of bank loans	**(363,481)**	**—**	**(363,481)**
Interest paid	**(12,705)**	**—**	**(12,705)**
Total changes from financing cash flows	**54,736**	**(7,687)**	**47,049**
Exchange adjustment	**4,082**	**—**	**4,082**
Other changes:			
Increase in lease liabilities from entering into new leases during the period	**—**	**25,901**	**25,901**
Interest expenses (Note 5(a))	**15,413**	**538**	**15,951**
Total other changes	**15,413**	**26,439**	**41,852**
At 31 December 2022	**444,233**	**23,163**	**467,396**

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(d) Total cash outflow for leases

	2022 **RMB'000**	2021 RMB'000 (restated)
Within operating cash flows	**80,477**	21,686
Within financing cash flows	**7,687**	2,127
	88,164	23,813

(e) Net cash outflow arising from the acquisition of a subsidiary

The recognised amounts of assets acquired and liabilities at the date of acquisition of the subsidiary comprise the following:

	2022 **RMB'000**
Cash and cash equivalents	**7,120**
Right-of-use assets	**496**
Trade and other receivables	**68**
Property, plant and equipment	**67**
Lease liabilities	**(502)**
Trade and other payables	**(81)**
Current taxation	**(9)**
Net assets acquired attributable to the Group	**7,159**
Consideration of acquisition of equity interest of Morimatsu Houston Corporation	**8,187**
Less: Total cash and cash equivalents acquired	**7,120**
Net cash outflow	**1,067**

21 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.

22 INTEREST-BEARING BORROWINGS

(a) The analysis of carrying amount of interest-bearing borrowings is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current		
— guaranteed bank loans	**80,723**	370,002
— non-guaranteed bank loans	**173,876**	—
Non-current		
— guaranteed bank loans	**106,560**	—
— non-guaranteed bank loans	**83,074**	—
Interest-bearing borrowings	**444,233**	370,002

(b) The bank loans and interest-bearing borrowings were repayable as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within 1 year or on demand	**254,599**	370,002
After 1 year but within 2 years	**83,074**	—
After 2 years but within 5 years	**106,560**	—
	444,233	370,002

23 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	As at 31 December 2022		As at 31 December 2021	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000 (restated)	Total minimum lease payments RMB'000 (restated)
Within 1 year	**6,059**	**6,947**	2,528	2,609
After 1 year but within 2 years	**3,120**	**3,808**	1,374	1,392
After 2 years but within 5 years	**6,770**	**8,154**	509	514
After 5 years	**7,214**	**7,917**	—	—
	23,163	**26,826**	4,411	4,515
Less: total future interest expenses		**(3,663)**		(104)
Present value of lease liabilities		**23,163**		4,411

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represent:

	Year ended 31 December 2022 RMB'000	2021 RMB'000 (restated)
Provision for income tax for the year:		
Balance at 1 January	**33,881**	5,710
Provision for current income tax for the year	**96,623**	64,706
PRC income tax paid	**(62,037)**	(36,535)
Balance at 31 December	**68,467**	33,881

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the reporting period are as follows:

	Accruals and provisions RMB'000	Amortisation of Intangible assets RMB'000	Credit loss allowance RMB'000	Revaluation of financial assets and liabilities RMB'000	Depreciation allowances in excess of the related depreciation RMB'000	Provisions for warranties, onerous contract and litigation RMB'000	Provisions for inventories RMB'000	Deferred income RMB'000	Total RMB'000
Deferred tax assets/(liabilities) arising from:									
At 1 January 2021	3,581	10	3,464	—	(14,052)	2,074	3,035	361	(1,527)
Credited/(charged) to profit or loss	1,987	(10)	(48)	(104)	(3,370)	530	(1,277)	(307)	(2,599)
At 31 December 2021 and 1 January 2022	5,568	—	3,416	(104)	(17,422)	2,604	1,758	54	(4,126)
Credited/(charged) to profit or loss	5,051	—	15	148	(12,458)	1,340	(108)	7,900	1,888
At 31 December 2022	10,619	—	3,431	44	(29,880)	3,944	1,650	7,954	(2,238)

(ii) Reconciliation to the consolidated statement of financial position

	2022 RMB'000	2021 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**7,120**	—
Net deferred tax liability recognised in the consolidated statement of financial position	**(9,358)**	(4,126)
	(2,238)	(4,126)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB149,446,000 as at 31 December 2022 (as at 31 December 2021: RMB66,713,000) of the relevant companies as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity before they expire. The deductible tax losses expire within 5 years from the year when such losses were incurred under current tax law.

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(d) Deferred tax liabilities not recognised

At 31 December 2022, temporary differences relating to undistributed profits of the subsidiaries amounted to RMB1,729,410,000 (as at 31 December 2021: RMB1,063,036,000). Deferred tax liabilities of RMB166,511,000 (as at 31 December 2021: RMB106,304,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits would not be distributed to the Company in the foreseeable future.

25 PROVISIONS

	Warranty provision RMB'000	Provision for onerous contract RMB'000	Total RMB'000
At 1 January 2022	**17,153**	**209**	**17,362**
Additional provisions made	**14,479**	**8**	**14,487**
Provisions utilised	**(6,218)**	**(181)**	**(6,399)**
At 31 December 2022	**25,414**	**36**	**25,450**

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within 18 months of the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the 18 months prior to the end of the each reporting period. The amount of provision takes into account the Group's recent experience and is only made where a warranty claim is probable.

26 DEFERRED INCOME

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Government grants	**42,434**	353

Government grants are related to assets those are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

The Group recognised an expense of RMB69,952,000 in the year ended 31 December 2022 (31 December 2021: RMB67,551,000), which is by reference to the fair value of the options granted on the measurement date (also referred as "grant date" herein), and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

In 2022, options to subscribe for an aggregate of 15,412,688 shares were exercised on and after 28 June 2022.

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

The Group recognised an expense of RMB69,435,000 in the year ended 31 December 2022 (31 December 2021: nil), which is by reference to the fair value of the RSUs on the vesting date, and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

No RSU were exercised in the year ended 31 December 2022.

(a) The terms and conditions of the grants are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Fair value at the grant date
At 1 July 2020	132,380,000	20% at any time after the first, second, third, fourth and fifth anniversary of the listing date	5.99 years	RMB2.29
At 5 January 2022	29,459,700	33% at any time after the first, second and third anniversary of the grant date	3.02 years	RMB4.06

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) The number of instruments are as follows:

	Year ended 31 December 2022		Year ended 31 December 2021
	Pre-IPO Share Option Scheme	**RSU Scheme**	Pre-IPO Share Option Scheme
Outstanding at the beginning of the year	132,380,000	—	132,380,000
Granted during the year	—	29,459,700	—
Exercised during the year	(15,412,688)	—	—
Forfeited during the year	(2,830,000)	(1,239,300)	—
Outstanding at the end of the year	114,137,312	28,220,400	132,380,000
Exercisable at the end of the year	10,497,312	—	—

The outstanding options of Pre-IPO Share Option Scheme at 31 December 2022 had an exercise price of HK$0.0001 and a weighted average remaining contractual life of 3.49 years (2021:4.49 years).

The outstanding RSUs of RSU Scheme at 31 December 2022 had an exercise price of HK$4.17 and a weighted average remaining contractual life of 2.02 years (2021:not applicable).

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Measurement of fair values

The fair value of services received in return for share options and RSUs granted is measured by reference to the fair value of share options and RSUs granted. The estimate of the fair value of the share options and RSUs granted is measured based on a binomial model. The contractual life of the share option and RSUs is used as an input into this model.

Fair value of share options and RSUs and assumptions

	Pre-IPO Share Option Scheme	RSU Scheme
Fair value at measurement date	RMB2.29	RMB4.06
Exercise price	HK$0.0001	HK$4.17
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	51.55%	50.00%
Time to maturity (expressed as weighted average life used in the modelling under binomial option pricing model)	10.54 years	4.94 years
Expected dividends	0.00%	0.00%
Risk-free interest rate (based on Exchange Fund Notes)	2.83%	1.25%

Volatility was based on historical volatilities of the comparable companies in the same industry for a period of remaining contractual life, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options and RSUs were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option and RSU grants.

28 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's equity between the beginning and the end of the reporting period are set out below:

The Company	Share capital	Treasury stock earnings	Capital reserve	Exchange reserve	Retained equity	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 28(b)			Note 28(c)		
Balance at 1 January 2021	173	—	523,392	2,474	(75,095)	450,944
Changes in equity for the year ended 31 December 2021						
Loss for the year	—	—	—	—	(93,797)	(93,797)
Other comprehensive income for the year	—	—	—	(5,625)	—	(5,625)
Shares issued	571,596	—	—	—	—	571,596
Equity-settled share-based transactions (Note 27)	—	—	67,551	—	—	67,551
Total change for the year	571,596	—	67,551	(5,625)	(93,797)	539,725
Balance at 31 December 2021 and 1 January 2022	571,769	—	590,943	(3,151)	(168,892)	990,669
Changes in equity for the year ended 31 December 2022						
Profit for the year	**—**	**—**	**—**	**—**	**43,568**	**43,568**
Other comprehensive income for the year	**—**	**—**	**—**	**615**	**—**	**615**
Equity-settled share-based transactions (Note 27)	**—**	**—**	**139,387**	**—**	**—**	**139,387**
Issuance of ordinary shares to the Company (Note 28(b)(i))	**36,581**	**(36,581)**	**—**	**—**	**—**	**—**
Exercise of share option (Note 28(b)(ii))	**35,307**	**1**	**(35,307)**	**—**	**—**	**1**
Total change for the year	**71,888**	**(36,580)**	**104,080**	**615**	**43,568**	**183,571**
Balance at 31 December 2022	**643,657**	**(36,580)**	**695,023**	**(2,536)**	**(125,324)**	**1,174,240**

28 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2022		2021	
	No. of shares ('000)	**RMB'000**	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**1,037,500**	**571,769**	200	173
Issue of shares	**—**	**—**	—	—
Issuance of ordinary shares to the Company (Note 28(b)(i))	**36,296**	**36,581**	—	—
Exercise of share option (Note 28(b)(ii))	**—**	**35,307**	—	—
Bonus issue (Note 28(b)(iii))	**—**	**—**	749,800	—
Issuance of ordinary shares upon initial public offering (Note 28(b)(iv))	**—**	**—**	250,000	493,980
Issuance of ordinary shares upon over-allotment (Note 28(b)(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 ordinary shares of the Company do not have a par value.

(i) Issuance of ordinary shares to the Company

The Company issued and repurchased 26,476,000 ordinary 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 ordinary shares at HK$4.17 per share for exercise of RSU 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, which is presented as treasury shares in the consolidated balance sheet as of 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 in accordance with policy set out in Note 1(s)(ii).

28 CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(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 ordinary shares upon initial public offering

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

(v) Issuance of ordinary 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.

(c) 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. The reserve is dealt with in accordance with the accounting policies set out in Note 1(w).

(d) 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.

28 CAPITAL AND RESERVES *(Continued)*

(e) Dividends

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

(f) 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 ordinary 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 recognised in accordance with the accounting policy adopted for share-based payments in Note 1(s)(ii).

(g) 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.

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities), less cash and cash equivalents. Adjusted capital comprises all components of equity.

28 CAPITAL AND RESERVES *(Continued)*

(h) Capital management *(Continued)*

During the years ended 31 December 2022 and 2021, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group's adjusted net debt-to-capital ratios at 31 December 2021 and 2022 were as follows:

	Note	As at 31 December **2022** **RMB'000**	*2021* RMB'000 (restated)
Current liabilities:			
Interest-bearing borrowings	22	**254,599**	370,002
Lease liabilities	23	**6,059**	2,528
Non-current liability:			
Interest-bearing borrowings	22	**189,634**	—
Lease liabilities	23	**17,104**	1,883
Total debt		**467,396**	374,413
Less: Cash and cash equivalents	20(a)	**(1,370,359)**	(1,548,875)
Adjusted net debt		**(902,963)**	(1,174,462)
Total equity attributable to equity shareholders of the Company		**2,815,730**	2,007,809
Adjusted capital		**2,815,730**	2,007,809
Adjusted net debt-to-capital ratio		**no net debt**	no net debt

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements throughout the reporting period.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks, for which the Group considers to have low credit risk.

The Group also provide, through banking facilities, performance guarantees as required by its customers under normal course of business. Other than the above, the Group does not provide any other guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2022 and 2021, 1% and 8% of the total trade receivables and contract assets was due from the Group's largest customer, 18% and 21% of the total trade receivables and contract assets was due from the Group's five largest customers respectively.

Individual credit evaluations are performed on customers who have high credit risk. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are mainly due within 30 days from the date of invoice. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecast of future economic conditions.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets *(Continued)*

During the year ended 31 December 2022 and 2021, there was no significant change in the customer base, the credit risk of customers, the Group's credit policy, the economic conditions and the Group's view of economic conditions over the expected lives of receivables.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2022 and 2021:

		31 December 2022	
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**0.03% ~ 0.04%**	**1,224,048**	**(406)**
0–3 months past due	**0.12% ~ 0.30%**	**136,480**	**(248)**
4–6 months past due	**0.22% ~ 0.88%**	**69,294**	**(220)**
7–12 months past due	**0.45% ~ 6.04%**	**82,435**	**(747)**
1–2 year past due	**1.56% ~ 100.00%**	**2,433**	**(77)**
		1,514,690	**(1,698)**
Customers with high credit risk	**100.00%**	**16,675**	**(16,675)**
		1,531,365	**(18,373)**

		31 December 2021	
	Expected loss rate %	Gross carrying amount RMB'000 (restated)	Loss allowance RMB'000 (restated)
Current (not past due)	0.11% ~ 0.33%	925,538	(1,942)
0–3 months past due	0.85% ~ 1.76%	148,105	(1,730)
4–6 months past due	1.80% ~ 3.05%	71,528	(1,634)
7–12 months past due	2.61% ~ 12.96%	55,449	(3,631)
1–2 year past due	3.23% ~ 100.00%	35,751	(8,357)
		1,236,371	(17,294)
Customers with high credit risk	100.00%	984	(984)
		1,237,355	(18,278)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets *(Continued)*

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Balance at 1 January	**18,278**	17,034
Amounts written off during the year	**(5)**	(1,559)
Impairment losses recognised during the year	**947**	5,297
Impairment losses reversed during the year	**(847)**	(2,494)
Balance at 31 December	**18,373**	18,278

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance:

— origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB1,176,000 (2021: RMB7,286,000);

— settlement of trade receivables originated from prior years resulted in a decrease in loss allowance of RMB12,666,000 (2021: RMB12,992,000);

— increase in days past due over resulted in an increase in loss allowance of RMB11,590,000 (2021: RMB8,509,000); and

— a write-off of trade receivables with a gross carrying amount of RMB5,000 (2021: RMB1,561,000) resulted in a decrease in loss allowance of RMB5,000 (2021: RMB1,559,000).

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

		As at 31 December 2022				
		Contractual undiscounted cash outflow				
	Note	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 5 years RMB'000**	**More than 5 year RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Interest-bearing borrowings	22	**267,413**	**205,403**	**—**	**472,816**	**444,233**
Trade and other payables	21	**1,633,543**	**—**	**—**	**1,633,543**	**1,633,543**
Lease liabilities	23	**6,947**	**11,962**	**7,917**	**26,826**	**23,163**
		1,907,903	**217,365**	**7,917**	**2,133,185**	**2,100,939**

		As at 31 December 2021			
		Contractual undiscounted cash outflow			
	Note	Within 1 year or on demand RMB'000 (restated)	More than 1 year but less than 5 years RMB'000 (restated)	Total RMB'000 (restated)	Carrying amount RMB'000 (restated)
Interest-bearing borrowings	22	383,744	—	383,744	370,002
Trade and other payables	21	1,094,663	—	1,094,663	1,094,663
Lease liabilities	23	2,609	1,906	4,515	4,411
		1,481,016	1,906	1,482,922	1,469,076

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

	As at 31 December 2022 Contractual undiscounted cash (outflow)/inflow		As at 31 December 2021 Contractual undiscounted cash (outflow)/inflow	
	Within 1 year or on demand RMB'000	**Total RMB'000**	Within 1 year or on demand RMB'000	Total RMB'000
Forward foreign exchange contracts:				
— outflow	**(26,431)**	**(26,431)**	(102,083)	(102,083)
— inflow	**25,191**	**25,191**	102,778	102,778
Monetary fund:				
— inflow	**253,748**	**253,748**	—	—

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from long-term borrowings. 59% of the borrowings of the Group are fixed rate instruments and are insensitive to any change in market interest rate.

The Group actively monitors the interest rate fluctuation to ensure that its net exposure is kept to an acceptable level.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	As at 31 December 2022		As at 31 December 2021	
	Interest rate		Interest rate	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Interest-bearing borrowings	**3.73% ~ 3.93%**	**254,131**	3.85% – 4.43%	370,002
Lease liabilities	**0.00% – 4.9%**	**23,163**	0.00% – 6.25%	3,874
Total fixed rate borrowings		**277,294**		373,876
Variable rate borrowings				
Interest-bearing borrowings	**5-year LPR-0.57%**	**106,678**	—	—
	2.51% - 6.81%	**83,424**	—	—
Total variable rate borrowings		**190,102**		—
Fixed rate borrowings as a percentage of total borrowings		**59%**		100%

(ii) Sensitivity analysis

At 31 December 2022, it is estimated that a general increase of 5% basis points in interest rates, with all other variables held constant, would have decreased the Group's profit after tax and retained profits by approximately RMB7,483,000 (2021: nil). A 5% decrease of interest rate would have had the equal but opposite effect on them to the amounts shown above.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen, Hong Kong dollar and Renminbi. The Group may also use forward foreign exchange contracts to manage currency risk. As at 31 December 2022, the effect of forward foreign exchange contracts is not material to the Group.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at each year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

	Exposure to foreign currencies (expressed in RMB'000)				
	As at 31 December 2022				
	USD	**EUR**	**JPY**	**HKD**	**RMB**
Cash and cash equivalents	**370,618**	**155,236**	**65,064**	**38**	**14,894**
Trade and other receivables	**39,786**	**1,839**	**286**	**—**	**—**
Contract assets	**165,458**	**44,782**	**—**	**—**	**—**
Interest-bearing borrowings	**—**	**—**	**—**	**—**	**(254,131)**
Trade and other payables	**(20,634)**	**(11,061)**	**(2,879)**	**(3)**	**—**
Net balance sheet exposure	**555,228**	**190,796**	**62,471**	**35**	**(239,237)**

	Exposure to foreign currencies (expressed in RMB'000)				
	As at 31 December 2021				
	USD	EUR	JPY	HKD	RMB
Cash and cash equivalents	561,743	438,775	9,168	3,925	9,899
Trade and other receivables	97,302	311	495	—	—
Contract assets	27,062	53,226	—	—	—
Interest-bearing borrowings	—	—	—	—	(345,002)
Trade and other payables	(28,828)	(15,895)	(319)	—	(3,663)
Net balance sheet exposure	657,279	476,417	9,344	3,925	(338,766)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	As at 31 December			
	2022		2021	
	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**10**	**46,371**	5	27,934
EUR	**5**	**7,986**	5	20,248
JYP	**5**	**2,617**	5	397
HKD	**10**	**3**	5	167
RMB	**5**	**(9,928)**	5	(14,398)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

(i) 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 measurements as at 31 December 2022 categorised ratio		
	Fair value at 31 December 2022 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 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)**	**—**

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy *(Continued)*

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised ratio		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 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.

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 of 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.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(ii) 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.

30 COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Authorised but not contracted for	**25,061**	899,819
Contracted for but not provided for	**438,214**	158,638
	463,275	1,058,457

(b) Operating lease commitments

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within 1 year	**5,284**	1,344

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the reporting period, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Morimatsu Group Co., Ltd. (Prior named as "**Morimatsu Holdings Co., Ltd.**")	Controlling Shareholder
Morimatsu Holdings Co., Ltd. (Prior named as "**Morimatsu Industry Company Limited**")	Parent company
Shanghai Morimatsu Chemical Equipment Co., Ltd.	Fellow subsidiary
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	Fellow subsidiary
Morimatsu Dialog (Malaysia) SDN. BHD.	Joint venture
Terumoto Matsuhisa	Members of director and key management personnel
Jungo Hirazawa	Members of director and key management personnel
Hirotaka Kawashima	Members of director and key management personnel
Koei Nishimatsu	Members of director and key management personnel
Wei Hua Tang	Members of director and key management personnel
Ye Sheng	Members of director and key management personnel

Note: The English translation of the above company names is for reference only. The official names of the companies established in the PRC are in Chinese.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8, is as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Short-term employee benefits	**12,070**	8,973
Equity compensation benefits	**28,597**	26,190
	40,667	35,163

Total remuneration is included in "staff costs" (see Note 5(b)).

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Related party transactions

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
		(restated)
Rental expense		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**44,481**	49,288
	44,481	49,288
Outsourcing service income		
Morimatsu Holdings Co., Ltd.	**511**	573
	511	573
Service income		
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	**—**	7,118
	—	7,118
Acquisition treated as a combination of businesses under common control		
Morimatsu Holdings Co., Ltd.	**8,187**	—
	8,187	—

(d) Related party balances

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Amounts due to (trade):		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**23,662**	59,328
	23,662	59,328
Trade payables	**23,662**	59,328
	23,662	59,328

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Related party balances *(Continued)*

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
		(restated)
Amounts due from (trade):		
Morimatsu Holdings Co., Ltd.	**280**	302
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	**—**	4,744
	280	5,046
Trade debtors net of loss allowance	**280**	5,046
	280	5,046

(e) Guarantees provided to related parties

	As at 31 December	
	2022	*2021*
	RMB'000	RMB'000
Morimatsu Dialog (Malaysia) SDN. BHD.	**10,656**	—
	10,656	—

(f) Applicability of the Listing Rules relating to connected transactions

These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section titled "CONNECTED TRANSACTIONS" of the Directors' Report.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2022 RMB'000**	As at 31 December 2021 RMB'000
Non-current asset			
Investment in subsidiaries	(a)	**1,200,559**	827,968
Current assets			
Trade and other receivables	(b)	**164,843**	631,711
Contract assets		**17,744**	—
Cash and cash equivalents		**172,026**	265,697
Current liabilities			
Trade and other payables		**35,648**	3,921
Contract liabilities		**7,729**	385,784
Interest-bearing borrowings	(c)	**254,481**	345,002
Net current assets		**56,755**	162,701
Total assets less current liabilities		**1,257,314**	990,669
Non-current liabilities			
Interest-bearing borrowings	(c)	**83,074**	—
Net assets		**1,174,240**	990,669
Capital and reserves			
Share capital		**643,657**	571,769
Reserves		**530,583**	418,900
Total equity		**1,174,240**	990,669

Approved and authorised for issue by the board of directors on 22 March 2023.

Weihua Tang
Directors

Kawashima Hirotaka
Directors

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

(a) Investment in subsidiaries

Pursuant to the written resolution dated on 27 August 2021, the registered capital of Morimatsu China increased from USD59,731,000 to USD98,509,000. The capital was fully injected during 2021.

Pursuant to the written resolution dated on 6 September 2021, the Company set up a new subsidiary Morimatsu LifeScience with registered capital of HKD780,000,000. The Company injected HKD5,000,000 and HKD315,500,000 during 2021 and 2022 respectively.

Pursuant to the written resolution dated on 24 November 2021, the registered capital of Morimatsu China increased from USD98,509,000 to USD103,000,900. The capital was fully injected during 2021.

Pursuant to the written resolution dated on 30 November 2021, the registered capital of Morimatsu Japan increased from JPY5,000,000 to JPY50,000,000. The capital was fully injected during 2021.

Equity-settled share-based payment expenses amounting to RMB108,499,000 (2021: RMB39,264,000) were recognized as the investment in subsidiaries for the Pre-IPO Option Scheme and RSU Scheme for the year ended 31 December 2022.

(b) Trade and other receivables

		As at 31 December	
	Note	**2022**	2021
		RMB'000	RMB'000
Amounts due from subsidiaries	(i)	**164,794**	631,691
Other debtors		**49**	20
		164,843	631,711

(i) As at 31 December 2022, RMB156,786,000, RMB7,899,000, RMB109,000 was mainly due from Morimatsu China, Morimatsu Japan and Morimatsu Investment HK respectively, which was eliminated in the consolidated financial statements.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

(c) Interest-bearing borrowings

	Note	As at 31 December **2022** **RMB'000**	 2021 RMB'000
Current			
— guaranteed bank loans	(i)	**80,605**	345,002
— non-guaranteed bank loans	(i) (ii)	**173,876**	—
Non-current			
— non-guaranteed bank loans	(ii)	**83,074**	—
Interest-bearing borrowings		**337,555**	345,002

(i) As at 31 December 2022, bank loans of RMB80,605,000 from Mizuho Bank and RMB171,286,000 from Sumitomo Mitsui Banking Corporation bear interest at 3.93% and 3.88% respectively per annum. The accrual of interest is RMB2,240,000. The bank loans and interest accrual are repayable on 31 August 2023 and 28 February 2023 respectively.

As at 31 December 2021, bank loans of RMB110,001,000 from Mizuho Bank and RMB235,001,000 from Sumitomo Mitsui Banking Corporation bear interest at 4.43% and 4.10% respectively per annum. All bank loans are repayable on 31 August 2022.

(ii) As at 31 December 2022, bank loans of RMB83,074,000 from Sumitomo Mitsui Banking Corporation bear variable interest rate from 2.51% to 6.81%. The accrual of interest is RMB350,000 and will be repaid within three months, which is recognized in the current portion. The bank loan is repayable on 25 November 2024.

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Investment of new subsidiary

On 16 January 2023, the Group set up a new subsidiary, Morimatsu Pharmadule (Singapore) Pte. Ltd. ("**Pharmadule Singapore**") The Company holds 100% shares directly and has control over Pharmadule Singapore. The register capital of Pharmadule Singapore is SGD500,000. Pharmadule Singapore provides technical and service support for the Group's business expansion in Southeast Asia. The capital has not been injected into Pharmadule Singapore.

(b) Allotment of shares under the subscription

On 4 January 2023, the Board approved that a total of 80,000,000 shares will be allotted and issued as fully paid for cash at HK$8.30 per share. The net proceeds (after deducting all fees, costs and expenses incurred by the Company) amount to approximately HK$655,049,000.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING ON OR AFTER 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
HKFRS 17, Insurance contracts	1 January 2023
Amendments to HKAS 1, Presentation of financial statements: Classification of liabilities as current or non-current	1 January 2023
Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2022, the directors consider the immediate parent of the Group to be Morimatsu Holdings Co., Ltd. and ultimate controlling party of the Group to be Morimatsu Group Co., Ltd., which are incorporated in Japan. These entities do not produce financial statements available for public use.

Definitions

"Adhesive"	is a polymer compound that is an inactive component of power cell electrodes and is one of the most important materials that must be used in the preparation of power cell electrodes
"AGM"	refers to the annual general meeting of the Company
"Articles of Association"	refers to the Articles of Association of the Company, as amended from time to time
"Audit Committee"	refers to the Audit Committee under the board of directors
"Biopharmaceuticals"	refers to products that are made from organisms, biological tissues, cells, body fluids, etc. by using the principles, approaches and research results of microbiology, chemistry, biochemistry, medicine and other subjects
"Bioreactor/Fermenter System"	the devices that grow animal cells, bacteria or yeast, etc. under controlled conditions, and are used to produce antibodies, vaccines, insulin or other drugs in the pharmaceutical manufacturing process
"Capital Expenditure Projects"	the large-scale capital expenditure projects of enterprises in the downstream industry, mainly used for the construction of new process units or the purchase of large-scale core industrial equipment and high-value industrial solutions
"CDMO"	Contract development and manufacturing organization
"CG Code"	refers to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this annual report, refers to Mr. Matsuhisa Terumoto, Mr. Matsuhisa Hiroyuki, Morimatsu Holdings and Morimatsu Group
"CXO"	Contract X Organization, is a pharmaceutical outsourcing service, mainly including organizations that serve the three major links of research and development, production and sales in the pharmaceutical industry
"Deed of Non-Competition"	the deed of non-competition undertaking dated 10 February 2021 entered into by our Controlling Shareholders in favour of the Company, further information of which is set forth in the section headed "Directors' Report" in this annual report
"Degradable Material"	a kind of material that can meet the requirements of use in terms of properties and remain unchanged during the storage life, and can be degraded to environmentally benign substances in natural environment after being used
"Digital Operation and Maintenance"	means to apply the Internet of Things (IoT) technology to enable local or remote management of the operation, maintenance of equipment and buildings via a digital platform. This significantly improves management efficiency and level, and really achieves the purposes of cost reduction and efficiency improvement

"Dual Carbon Commitment"	refers to China's commitment of its "dual carbon" target made in September 2020. i.e. to reach peak CO_2 emissions by 2030 and to strive to achieve carbon neutrality by 2060
"Electrolyte"	means the carrier for ion transport in a battery. It is generally composed of lithium salts and organic solvents, and as a conductor of ions between the positive and negative electrodes of a lithium battery. The electrolyte is generally composed of high purity organic solvents, electrolytic lithium salts, necessary additives and other raw materials, and is prepared under certain conditions and in a certain ratio
"Electrolytic Lithium Salts"	an important part of lithium-ion batteries, it provides lithium-ion batteries with free shuttle ions and undertakes the role of transporting ions inside the battery. At the same time, it can also form a protective layer on the surface of electrode materials, which largely determines the capacity, operating temperature, cycle performance, power density, energy density and safety of lithium-ion batteries
"Electronic Chemicals"	refers to the fine chemical products supporting the electronic industry, one of the important supporting materials for the electronic industry. The quality of electronic chemicals not only directly affects the quality of electronic products, but has significant effect on the industrialisation of the microelectronic manufacturing technology. The development of the electronic industry requires synchronisation of the electronic chemical industry. Therefore, electronic chemical has become one of the key materials prioritised by all countries around the world in order to develop the electronic industry
"EUR" or "Euro"	refers to euro, the lawful currency of the Eurozone
"Global Offering"	the offer of the Shares for subscription as described in the section headed "Structure of the Global Offering" in the Prospectus
"High-nickel Ternary"	refers to lithium battery ternary cathode material with relatively high nickel content
"HKD" or "HK$"	refers to Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	refers to the Hong Kong Special Administrative Region of the PRC
"IFRS(s)"	refers to International Financial Reporting Standards
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, the United Nations or the Government of Australia
"Japan"	Japan
"Jinliang Technology"	Shanghai Jinliang Technology Service Co., Ltd. (上海金亮科技服務有限公司), a company established with limited liability in the PRC on 27 December 2021, and a general partner of Jinwen Consultation

"Jinwen Consultation"	Shanghai Jinwen Enterprise Consultation Management Partnership (Limited Partnership) (上海金聞企業諮詢管理合夥企業(有限合夥)), a partnership established with limited liability in the PRC on 10 March 2022, and one of the shareholders of Morimatsu Biotechnology
"JPY"	refers to Japanese Yen, the lawful currency of Japan
"Listing" or "IPO"	refers to the listing of the Shares on the Main Board of the Stock Exchange on 28 June 2021
"Listing Date"	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commenced, which is 28 June 2021
"Listing Rules"	refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Lithium Bis (fluorosulfonyl) Amide"	is used to prepare inorganic salts and organic ionic liquids containing bis (fluorosulfonyl) amide ions, which can effectively reduce the viscosity and improve the conductivity of electrolytes
"Lithium Difluorophosphate"	an inorganic compound with the chemical formula $LiPO_2F_2$, mainly used as an additive for lithium-ion batteries
"Lithium Hexafluorophosphate"	refers to an important electrolyte (the four major components of a power cell: positive electrode material, negative electrode material, electrolyte, and separator) that conducts ions and electrons between the positive and negative electrodes
"Lithium Tetrafluoroborate"	refers to an inorganic compound with the chemical formula $LiBF_4$, mainly used as an electrolyte in lithium batteries
"Main Board"	refers to Main Board of the Stock Exchange
"Model Code"	refers to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Module/Modular"	the design idea and installation method for preassembling of key equipment, other components, pipe structures, electrical instruments, etc. in a manufacturing plant, so as to minimize the work quantity on project site, and reduce cost of on-site jobs and on-site failures
"Mori-Biounion Technology"	Shanghai Mori-Biounion Technology Co., Ltd. (上海森眾生物技術有限公司), a company established with limited liability in the PRC on 24 May 2022 and an indirect non-wholly owned subsidiary of the Company
"Morimatsu Biotechnology"	Shanghai Morimatsu Biotechnology Co. Ltd. (上海森松生物科技有限公司), a company established in the PRC on 17 January 2022 with limited liability and an indirect non-wholly owned subsidiary of the Company

"Morimatsu Chemical"	Shanghai Morimatsu Chemical Equipment Co., Ltd. (上海森松化工成套裝備有限公司), a company established in the PRC with limited liability on 17 November 2004, which is owned by Morimatsu Seiki and 株式會社森松総合研究所 as to 80.85% and 19.15%, respectively
"Morimatsu China"	Morimatsu (China) Investment Co., Ltd (森松(中國)投資有限公司), a company established in the PRC with limited liability on 7 June 2010 and a direct wholly-owned subsidiary of the Company
"Morimatsu Dialog"	Morimatsu Dialog (Malaysia) Sdn. Bhd., a private company established in Malaysia with limited liability on 14 September 2021, which is an indirect non-wholly-owned subsidiary of the Company
"Morimatsu Engineering Technology"	Shanghai Morimatsu Engineering Technology Co. Ltd. (上海森松工程技術有限公司), a company established in the PRC on 19 November 2021 with limited liability and an indirect wholly-owned subsidiary of the Company
"Morimatsu Group (森松グループ株式會社)"	Morimatsu Group Co., Ltd., formerly known as Morimatsu Holdings Co., Ltd. (森松ホールディングス株式會社), a limited liability company incorporated in Japan on 1 September 2015, which is controlled by Mr. Matsuhisa Terumoto by holding 100% of its voting shares, and one of our Controlling Shareholders
"Morimatsu Heavy Industry"	Morimatsu (Jiangsu) Heavy Industry Co., Ltd. (森松(江蘇)重工有限公司), a company established in the PRC on 13 May 2008 with limited liability and an indirect wholly-owned subsidiary of the Company
"Morimatsu Holdings"	Morimatsu Holdings Co., Ltd. (森松ホールディングス株式會社), formerly known as Morimatsu Industry Co., Ltd. (森松工業株式會社), a company incorporated in Japan with limited liability on 2 May 1964, which is controlled by Morimatsu Group, and one of our Controlling Shareholders
"Morimatsu Houston"	Morimatsu Houston Corporation, a company incorporated in the United States with limited liability on 17 January 2008, and acquired by Pharmadule Sweden on 28 February 2022, and an indirect wholly-owned subsidiary of the Company
"Morimatsu LifeSciences"	Morimatsu (Suzhou) LifeSciences Company Limited (森松(蘇州)生命科技有限公司), a company established in the PRC with limited liability on 26 September 2021 and a direct wholly-owned subsidiary of the Company
"Morimatsu Pharmaceutical Equipment"	Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd (上海森松製藥設備工程有限公司) (formerly known as Shanghai Morimatsu Pharmaceutical Equipment Company Limited (上海森松製藥設備有限公司)), a company established in the PRC with limited liability on 29 November 2001 and an indirect wholly-owned subsidiary of the Company

"Morimatsu Pressure Vessel"	Shanghai Morimatsu Pressure Vessel Co., Ltd (上海森松壓力容器有限公司), now known as Shanghai Nagamori Machinery Co., Ltd. (上海森永工程設備有限公司), a company established in the PRC with limited liability on 14 October 1990, which is currently owned as to 55.76% by Mr. Wang Guobin (王國斌), 25.30% by Shanghai Haitai Plastic Machinery Co., Ltd. (上海海太塑料機械有限公司), 14.94% by Shanghai Saima Enterprise Consulting Management Partnership (Limited Partnership) (上海賽瑪企業諮詢管理合夥企業(有限合夥)) and 4.00% by Wang Tianxin (王天馨), being Independent Third Parties, respectively
"Morimatsu Seiki"	Shanghai Morimatsu Seiki Co., Ltd. (上海森松精機有限公司), a company established in the PRC with limited liability on 24 September 2019, and wholly-owned by Morimatsu Holdings
"Morimatsu T&S"	Morimatsu Technology and Service Company Limited (森松T&S株式會社) (formerly known as Shanghai Morimatsu Co., Ltd (上海森松株式會社) and Morimatsu Industry Bunkatsu Junbi Co., Ltd. (森松工業分割準備株式會社)), a company incorporated in Japan with limited liability on 31 January 2014 and a direct wholly-owned subsidiary of the Company
"NMP (N-Methylpyrrolidone)"	a colorless and transparent liquid, and one of the most commonly used auxiliary materials for lithium batteries like adhesive, with the main function of dissolving the positive and negative active materials
"Nomination Committee"	refers to the Nomination Committee of the Board
"Pharmadule Singapore"	Morimatsu Pharmadule (Singapore) Pte. Ltd., a private company established in Singapore with limited liability on 16 January 2023, which is a direct wholly-owned subsidiary of the Company
"Pharmadule Sweden"	Pharmadule Morimatsu AB (formerly known as "**Goldcup 6476 AB**"), a company incorporated in Sweden with limited liability on 3 March 2011 and a direct wholly-owned subsidiary of the Company
"Photoresist"	refers to resist-resistant thin-film materials whose solubility changes through irradiation or radiation of ultraviolet light, electron beams, ion beams, and X-rays, etc.
"Post-IPO Share Option Scheme"	refers to the post-IPO share option scheme adopted by the Company and became effective on 10 February 2021, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — Post-IPO Share Option Scheme" in Appendix V to the Prospectus
"Power Battery"	refers to the power battery refers to the ternary polymer lithium battery used in new energy vehicles, which is a kind of lithium battery with three elements: nickel salt, cobalt salt, and manganese salt/lithium aluminate as its cathode materials, graphite as its anode material, and mainly lithium hexafluorophosphate as its electrolyte
"PPT Grade"	a unit of concentration, equivalent to 10 to the negative 12th power

"PRC" or "China"	refers to the People's Republic of China which, for the purpose of this annual report, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Pre-IPO Share Option Scheme"	refers to the pre-IPO share option scheme adopted by the Company and became effective on 1 July 2020, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — Pre-IPO Share Option Scheme" in Appendix V to the Prospectus
"Prospectus"	refers to the prospectus issued by the Company dated 15 June 2021
"Recombinant Protein"	refers to a protein obtained using recombinant Deoxyribonucleic acid (DNA) or recombinant ribonucleic acid (RNA) technology, which intercepts and clones the most active gene fragment in the protein, and then introduce it into the recipient cells for continuous reproduction, and then separate and purify the expressed protein to obtain the recombinant protein
"Remuneration Committee"	refers to the Remuneration Committee of the Board
"Renminbi" or "RMB"	refers to Renminbi, the lawful currency of the PRC
"Reporting Period"	refers to the period of one year from 1 January 2022 to 31 December 2022
"RSU Scheme"	refers to the restricted share unit scheme adopted by the Company on 15 December 2021
"SEK"	refers to Swedish Krona, the lawful currency of Sweden
"Separator"	located between the positive electrode and the negative electrode of a power battery with the main function of separating the positive and negative active materials to prevent the two electrodes from getting short-circuited caused by contact
"SFO"	refers to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGD"	the legal currency of Singapore, the Singapore dollar
"Shanghai Securities News (上海證券報)"	a newspaper that is published by Xinhua News Agency (新華通訊社) since 1991, a national financial daily that mainly provides securities professional information
"Shareholders"	refers to holders of the Shares
"Shares"	refers to ordinary shares of the Company
"Single-use Bioreactor"	refers to a bioreactor using a disposable bag instead of a culture container made of stainless steel or glass, also known as Disposable Bioreactor

"Sodium Hexafluorophosphate"	refers to an inorganic compound with the chemical formula $NaPF_6$, mainly used to prepare other hexafluorophosphates
"Stock Exchange"	refers to The Stock Exchange of Hong Kong Limited
"Ternary Anode Material"	means a power battery anode material consisting of ternary materials (typically NiCuMn or NiCoAl)
"Ternary Precursor"	means nickel and cobalt (aluminum) ternary complex hydroxide, the front-end material of the cathode material, which plays a decisive role in the performance of the cathode material
"USD" or "US$"	refers to United States dollars, the lawful currency of the United States
"VBDATA.CN (動脈網)"	is a technology media focusing on the field of Internet medical and digital medical health, and a website of Beijing Egg Yolk Technology Co., Ltd. (北京蛋黃科技有限公司)
"%"	per cent

In this annual report, unless the context otherwise requires, the terms "associate", "connected person", "connected transaction", "subsidiary", and "substantial shareholder" have the meanings ascribed to them in the Listing Rules.