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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2155)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 (the "**Interim Period**" or "**Reporting Period**") to the shareholders of the Company.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2023	2022
	RMB	*RMB*
	(unaudited)	(unaudited)
Revenue	**3,691,759,000**	2,964,865,000
Gross profit	**1,009,092,000**	788,424,000
Gross profit margin	**27.3%**	26.6%
Net profit	**421,029,000**	302,536,000
Net profit margin	**11.4%**	10.2%
Amount of new orders	**4,922,003,000**	5,111,849,000
Adjusted EBITDA [Note]	**626,959,000**	470,072,000
Basic earnings per share	**0.37**	0.29
Diluted earnings per share	**0.34**	0.28
	As at 30 June	
	2023	2022
	RMB	*RMB*
	(unaudited)	(unaudited)
Aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	**9,866,457,000**	7,881,632,000

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the six months ended 30 June 2023 – unaudited

		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**3,691,759**	2,964,865
Cost of sales		**(2,682,667)**	(2,176,441)
Gross profit		**1,009,092**	788,424
Other income	*4*	**14,121**	46,149
Selling and marketing expenses		**(78,986)**	(95,437)
General and administrative expenses		**(269,168)**	(228,481)
Research and development expenses		**(168,090)**	(145,505)
Impairment loss reversed or (recognised) on trade receivables and contract assets		**388**	(14,876)
Profit from operations		**507,357**	350,274
Finance costs	*5(a)*	**(7,339)**	(7,900)
Share of results of joint venture		**(3,596)**	(1,146)
Shares of results of associates		**8**	—
Profit before taxation	*5*	**496,430**	341,228
Income tax	*6*	**(75,401)**	(38,692)
Profit for the period		**421,029**	302,536
Attributable to:			
Equity shareholders of the Company		**422,346**	302,672
Non-controlling interests		**(1,317)**	(136)
Profit for the period		**421,029**	302,536
Earnings per share	*7*		
Basic (RMB)		**0.37**	0.29
Diluted (RMB)		**0.34**	0.28

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – unaudited

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**421,029**	302,536
Other comprehensive income for the period		
Item that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	**30,273**	2,485
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	**1,812**	(371)
Other comprehensive income for the period	**32,085**	2,114
Total comprehensive income for the period	**453,114**	304,650
Attributable to:		
Equity shareholders of the Company	**454,431**	304,786
Non-controlling interests	**(1,317)**	(136)
Total comprehensive income for the period	**453,114**	304,650

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 30 June 2023 – unaudited

	Note	**As at 30 June 2023** *RMB'000* **(unaudited)**	As at 31 December 2022 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,939,232**	1,609,565
Right-of-use assets		**194,208**	198,888
Intangible assets		**35,741**	31,079
Interests in associates		**40,023**	20,016
Interest in joint venture		**11,317**	6,155
Financial assets measured at fair value through profit or loss ("**FVPL**")		**10,000**	10,000
Deferred tax assets		**11,698**	7,120
Other non-current assets		**77,945**	243,212
		2,320,164	2,126,035
Current assets			
Inventories		**2,381,514**	2,213,728
Contract assets		**789,971**	830,927
Trade and other receivables	*8*	**1,071,959**	1,165,785
Financial assets measured at fair value through profit or loss ("**FVPL**")		**480,635**	253,748
Cash and cash equivalents		**1,932,305**	1,370,359
		6,656,384	5,834,547
Current liabilities			
Trade and other payables	*9*	**1,629,810**	1,633,543
Contract liabilities		**2,821,847**	2,890,048
Interest-bearing borrowings		**180,844**	254,599
Financial liabilities measured at fair value through profit or loss ("**FVPL**")		**—**	1,240
Lease liabilities		**5,352**	6,059
Current taxation		**75,527**	68,467
Provisions		**28,851**	25,450
		4,742,231	4,879,406
Net current assets		**1,914,153**	955,141
Total assets less current liabilities		**4,234,317**	3,081,176

	Note	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000
Non-current liabilities			
Interest-bearing borrowings		**218,944**	189,634
Lease liabilities		**15,919**	17,104
Deferred tax liabilities		**20,369**	9,358
Deferred income		**45,216**	42,434
		300,448	258,530
Net assets		**3,933,869**	2,822,646
Capital and reserves			
Share capital	*10(c)*	**1,252,294**	643,657
Reserves		**2,672,638**	2,172,073
Total equity attributable to equity shareholders of the Company		**3,924,932**	2,815,730
Non-controlling interests		**8,937**	6,916
Total equity		**3,933,869**	2,822,646

NOTES TO UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION

(a) Basis of preparation

The preliminary announcement of the Company's interim results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). It was authorised for issue on 22 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The financial information relating to the financial year ended 31 December 2022 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (the "**Companies Ordinance**") (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2 CHANGES IN ACCOUNTING POLICIES

The group has applied the following new and amended Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended HKFRSs are discussed below:

HKFRS 17, Insurance contracts

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the group does not have contracts within the scope of HKFRS 17.

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

Amendments to HKAS 12, Income taxes: International tax reform — Pillar Two model rules

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("**OECD**") (income tax arising from such tax laws is hereafter referred to as "**Pillar Two income taxes**"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax. The amendments are immediately effective upon issuance and require retrospective application. The amendments do not have a material impact on these financial statements.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

(i) Disaggregation of revenue

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— traditional pressure equipment	**1,069,274**	1,364,733
— reactor	**455,349**	612,396
— heat exchanger	**326,208**	324,659
— tank	**208,304**	221,852
— tower	**79,413**	205,826
— modular pressure equipment	**2,551,515**	1,534,088
— others*	**14,396**	14,623
Sales of products	**3,635,185**	2,913,444
— Pressure equipment design, validation, and maintenance service	**56,574**	51,421
Service	**56,574**	51,421
Revenue of operations	**3,691,759**	2,964,865

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

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

The Group's customer base is diversified and includes two customers with whom transactions have exceeded 10% of the Group's revenues of six months ended 30 June 2023 (six months ended 30 June 2022: one). Revenues from those customers are set out below:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	**431,339**	*
Customer B	*****	472,232
Customer C	**393,597**	*

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

(ii) ***Geographic information***

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Mainland China	**2,268,690**	1,656,474
North America	**495,623**	97,044
Asia (excluding Mainland China)	**521,025**	282,045
Europe	**54,306**	405,055
Africa	**248,650**	482,698
Others (Note)	**103,465**	41,549
Total	**3,691,759**	2,964,865

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

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

(b) Segment reporting

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

4 OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants (i)	**3,368**	2,195
Interest income	**21,626**	2,972
Net realised gains on monetary fund	**4,050**	4,537
Net realised gains on forward exchange contracts	**166**	521
Net foreign exchange (losses)/gains	**(17,150)**	39,958
Changes in fair value of financial assets and liabilities	**1,220**	(4,763)
Net loss on disposal of property, plant and equipment	**(281)**	—
Others	**1,122**	729
	14,121	46,149

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on interest-bearing borrowings	**6,858**	7,869
Interest on lease liabilities	**481**	31
	7,339	7,900
(b) Staff costs:		
Salaries, wages and other benefits	**519,413**	390,275
Equity-settled share-based payment expenses (Note 10(b))	**53,509**	69,425
Contributions to defined contribution retirement plans (i)	**53,295**	39,983
	626,217	499,683

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(c) Other items:		
Amortisation of intangible assets	**7,338**	7,847
Depreciation charge		
— owned property, plant and equipment	**56,400**	40,187
— right-of-use assets	**5,943**	3,485
Research and development costs (i)	**168,090**	145,505
Increase in provisions	**6,939**	6,173
Cost of inventories (ii)	**2,682,667**	2,176,441
Inventory write-down and losses net of reversals	**6,301**	4,532

(i) Research and development costs included staff costs of Renminbi ("**RMB**") 89,549,000 (six months ended 30 June 2022: RMB73,046,000), depreciation and amortisation expenses of RMB5,271,000 (six months ended 30 June 2022: RMB5,077,000) for the six months ended 30 June 2023, 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 RMB284,686,000 (six months ended 30 June 2022: RMB262,693,000), depreciation and amortisation expenses of RMB35,171,000 (six months ended 30 June 2022: RMB30,550,000) for the six months ended 30 June 2023, which are also included in the respective total amounts disclosed separately above or in Note 5(b).

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
Provision for the year	**68,968**	45,822
Deferred tax:		
Origination and reversal of temporary differences	**6,433**	(7,130)
Actual tax expense	**75,401**	38,692

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

Pursuant to the income tax rules and regulations of Hong Kong, the Company and the Group's subsidiary in Hong Kong was subject to the Hong Kong Profits Tax at a rate of 16.5% for the six months ended 30 June 2023 and 2022. 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 the six months ended 30 June 2023 and 2022 respectively.

Pursuant to the income tax rules and regulations of the Kingdom of Sweden ("**Sweden**"), Pharmadule Morimatsu AB was subject to the Sweden Corporate Tax at a rate of 20.6% for the six months ended 30 June 2023 and 2022.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc and Morimatsu Houston Corporation were subject to the United States Corporate Tax at a rate of 21% for the six months ended 30 June 2023 and 2022, which represents federal income tax at a rate determined by income ranges.

Pursuant to the income tax rules and regulations of the Republic of India ("**India**"), Pharmadule Engineering India Private Limited was subject to the India Corporate Tax at a rate of 25.17% and 25% for the six months ended 30 June 2023 and 2022. No provision for India Corporate Tax was made for Pharmadule Engineering India Private Limited as the company did not have income subject to India Corporate Tax for the six months ended 30 June 2022.

Pursuant to the income tax rules and regulations of Japan, Morimatsu Technology and Service Company Limited was subject to the Japan Corporate Tax at a rate of 33.58% for the six months ended 30 June 2023 and 2022. No provision for Japan Corporate Tax was made for Morimatsu Technology and Service Company Limited as the company did not have income subject to Japan Corporate Tax for the six months ended 30 June 2023 and 2022.

Pursuant to the income tax rules and regulations of the Republic of Italy ("**Italy**"), Morimatsu Italy S.R.L. was subject to the Italy Corporate Tax at a rate of 24% for the six months ended 30 June 2023 and 2022. No provision for Italy Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italy Corporate Tax for the six months ended 30 June 2023 and 2022.

Pursuant to the income tax rules and regulations of United Mexican States ("**Mexico**"), Permanent Establishment in Mexico, the branch of Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd., was liable to the Mexico Corporate Tax at a rate of 30% for the six months ended 30 June 2023 and 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.

Pursuant to the income tax rules and regulations of the Republic of Singapore ("**Singapore**"), Morimatsu Pharmadule (Singapore) Pte. Ltd. was subject to the Singapore Corporate Tax at a rate of 17% for the six months ended 30 June 2023. No provision for Singapore Corporate Tax was made for Morimatsu Pharmadule (Singapore) Pte. Ltd. ("**Pharmadule Singapore**") as the company did not have income subject to Singapore Corporate Tax for the six months ended 30 June 2023.

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

	Applicable preferential tax rate	**Period**
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (上海森松製藥設備工程有限公司)*	15%	2022–2023
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("**Morimatsu Heavy Industry**") (森松(江蘇)重工有限公司)*	15%	2022–2023

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

(iii) Under the CIT Law of the PRC and its relevant regulation, qualified research and development expenses are subject to income tax deduction at 200% on the amount actually incurred for each of the year ended 31 December 2023 and 2022.

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

(v) Under PRC CIT law, the deductible tax losses expire within 5 years from the year when such losses were incurred. It mainly arose from the Morimatsu (China) Investment Co., Ltd. whose principal activity was investment holding, Shanghai Morimatsu Biotechnology Co. Ltd. and Morimatsu (Suzhou) LifeSciences Company Limited, who are still at start-up stages.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB422,346,000 (six months ended 30 June 2022: RMB302,672,000) and the weighted average of 1,147,734,000 ordinary shares (2022: 1,037,718,000 shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB422,346,000 (six months ended 30 June 2022: RMB302,672,000) and the weighted average number of ordinary shares of 1,240,786,000 (2022: 1,091,917,000 shares).

8 TRADE AND OTHER RECEIVABLES

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	
Bills receivable	**36,836**	156,247
Trade debtors net of loss allowance	**799,042**	682,065
Other debtors	**64,190**	61,048
Financial assets measured at amortised cost	**900,068**	899,360
Prepayments	**171,891**	266,425
	1,071,959	1,165,785

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

	As at 30 June 2023 *RMB'000* **(unaudited)**	As at 31 December 2022 *RMB'000*
Within 3 months	**414,850**	389,805
More than 3 months but less than 1 year	**310,826**	231,885
More than 1 year but less than 2 years	**65,822**	55,467
More than 2 years	**7,544**	4,908
	799,042	682,065

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

9 TRADE AND OTHER PAYABLES

	As at 30 June 2023 *RMB'000* **(unaudited)**	As at 31 December 2022 *RMB'000*
Bills payable	**17,500**	21,577
Trade payables	**1,294,643**	1,233,544
Other payables and accruals	**317,667**	378,422
Financial liabilities measured at amortised cost	**1,629,810**	1,633,543

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

	As at 30 June 2023 *RMB'000* **(unaudited)**	As at 31 December 2022 *RMB'000*
Within 3 months	**827,156**	1,005,728
More than 3 months but less than 6 months	**209,049**	181,516
More than 6 months but less than 12 months	**221,765**	36,670
More than 1 year but less than 2 years	**28,386**	5,848
More than 2 years	**8,287**	3,782
	1,294,643	1,233,544

10 CAPITAL AND RESERVES

(a) Dividend

The Board resolved not to declare the payment of any interim dividend for the six months ended 30 June 2023 (30 June 2022: nil).

The board of the Company's subsidiary has resolved to propose RMB50,000,000 of its interim dividend to the Company for the six months ended 30 June 2023 (30 June 2022: nil).

(b) Equity settled share-based transactions

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

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

The Group recognised an expense of RMB37,609,000 in the six months period ended 30 June 2023 (six months ended 30 June 2022: RMB33,860,000), 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.

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 RSU vests 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 RMB15,900,000 in the six months period ended 30 June 2023 (six months ended 30 June 2022: RMB35,565,000), 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.

(c) Share capital

(i) Allotment of shares under the subscription

On 4 January 2023, the Board approved that a total of 80,000,000 ordinary 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 RMB567,206,000.

(ii) Issuance of ordinary shares to the Company

The Company issued and repurchased 26,476,000 ordinary shares at HK$0.6651 per share for exercise of Pre-IPO Share Option Scheme on 1 June 2023 (26,476,000 ordinary shares at HK$0.6621 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.

(iii) Exercise of share option and RSU

Options to subscribe for an aggregate of 2,257,707 ordinary shares were exercised in the six months period ended 30 June 2023, which resulted in an increase in share capital of RMB5,172,000.

Options to subscribe for an aggregate of 709,150 ordinary shares were exercised during the period from 28 June 2022 and 30 June 2022, which resulted in an increase in the share capital of RMB1,624,000.

9,406,800 RSUs were vested and exercised in the six months period ended 30 June 2023, which resulted in an increase in the share capital of RMB36,257,000.

No RSUs were vested and exercised during the six months ended 30 June 2022.

(d) Other reserve

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

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT VISION AND MISSION STATEMENT

The Group is committed to becoming the world's leading supplier and service provider of core equipment in the industrial field, value-added services and digital intelligent factory solutions.

In assisting mankind's continuous pursuit of a healthier life, a greener environment and a smarter world, the Group provides core equipment, high-value-added process solutions, one-stop digital intelligent factory solutions (including process packages) as well as whole life-cycle sustained value services to the downstream industry, including joint research and development, technical consulting, technological optimisation, consumable solutions, establishment of digital operation and maintenance platforms, operation and maintenance, as well as continuous improvement, amongst others.

BUSINESS, PRODUCT STRATEGY AND MARKET

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

The Group actively serves the innovation needs of downstream industries. With the rising demand for global environmental protection materials, sustainable energy and new biological agents, as well as the increase in global computing power, the Group continues to empower customers in different regions through diversified product formats (as demonstrated by the Group's MVP model) centred on the three development themes of "Healthy", "Green" and "Intelligent", in conjunction with technological updates and product iterations in the downstream industries.

The Group serves the business ecology of different downstream industries and adheres to a product strategy that focuses on value-based services, persistent innovation, close proximity to demand, and orientation towards the future, to provide customers with products and services covering the entire life cycle from research and development, production to process improvement, and ultimately, to form the strategy of "MVP Solutions+" based on technological performance, with specific products as the carrier and continual services as the platform.

MVP Model

Machines — Core Equipment: The core equipment, designed to achieve theoretical heat and mass transfer in a large volume equipment, works to realise new material synthesis processes that are theoretically based and feasible at the practical laboratory level, at the process level production scale. These devices are primarily reactors in production facilities for different downstream products, including but not limited to bioreactors (for the field of biopharmaceuticals), oxidation reactors (for chemical industry), protein and microbial fermentation tanks (for field/industry in biopharmaceuticals and daily chemicals), hydrogenation reactors (for oil and gas refinery industry), molten salt reactors (for chemical industry), vapour deposition reactors (for the field of raw materials of photovoltaic and semiconductors), and high-pressure acid leaching reactors (for the field of raw materials for power batteries), among others.

Values — Value Empowerment: The Group understands the deep-rooted needs of the downstream industry, in addition to physical products, with the goal of value empowerment, the Group provide customers with a variety of forms of ancillary services and other services customised based on individual needs, including modular solutions, industrial small test and pilot test and desktop solutions, assist customers to achieve the optimal configuration in terms of technological feasibility, cost optimisation and means of delivery, while at the same time reducing the management and communication interfaces in the process of project execution and simplifying the project execution process and reducing execution risks. Looking to the future, the Group is working with its customers to promote device improvement and technology upgrading, and the application scenarios include modular overseas engineering centres in the field of raw materials for power batteries and pilot production plants for lithium battery raw materials, complete sets of process equipment for the daily chemical and bio-pharmaceutical industries/fields, modular products for processes in the oil and gas refining and chemical industries, and complete solutions in the field of semiconductor high-purity chemical reagents.

Plants — Highly Integrated Systematic Solutions: This is an extreme industrial product where the Group directly addresses the needs of customers for the commercial production of products, providing a one-stop (front-end service + physical product + back-end service) systematic solution, covering from process design and plant design to core process equipment delivery, system manufacturing/installation/commissioning/certification to operation and maintenance management, as well as continuous optimization. These systematic solutions can cover the entire life cycle of specific products and technologies, and enhance upstream and downstream interconnectivity, maximizing the bonding between the Group and its customers, as well as continuously updating and iterating the Group's products and technologies in response to the continuous innovation needs of its customers. A one-stop systematic solution that is compatible with regulations and industry standards in multiple countries and maximizes in-plant manufacturing according to customer needs, with unique advantages in supply chain stability, project economics, and delivery security to help customers rapidly deploy capacity around the globe, deliver new technologies and launch new products. The Group's experience and strengths in the design and manufacture of core equipment in multiple fields and in the implementation of overseas projects for multiple markets further enhanced the reliability of systematic solutions. Application scenarios for systematic solutions include modern biopharmaceutical plants, factories for daily chemical products, fine chemical production plants and plants for the production of raw materials for power batteries.

MVP Solutions+ Strategy

The MVP Solutions+ strategy refers to the Group's business model that utilizes process packages as the technology carrier in the form of continual services in addition to the above three specific types of products. Its advantages mainly include:

(1) Stay updated to the customers' value needs, enhance customer bonding and loyalty;

(2) Keep up with the development trends of the downstream industry, actively integrate into the process of customers' technology update and product iteration;

(3) Continue to improve our competitive advantages, deepen the development of the moat effect and maximize the avoidance of long-term homogeneous competition;

(4) Avoid continuous investment in hardware assets and downplay the inevitable link between hardware capacity growth and business development;

(5) Continuously enhance the Group's technological attributes and continue to improve the Group's learning and evolutionary capabilities; and

(6) Define a unique development model for manufacturing enterprise, avoiding dependence on a single product and a single market, and realizing continuous updating and iteration of core technologies and products.

Process Packages

Process package generally refers to Process Design Package (PDP), which usually consists of a set of technical process documents, which not only details product performance indicators and the process flow of production device, material and energy balance, process control interlocking, equipment layout, core equipment selection, electrical and instrumentation requirements, but also describes in details the requirements in material, environmental protection, safety and operational aspects, therefore is the most important programmatic and guiding documents in the synthetic materials process.

In addition to the above, the Group's process packages include engineered solutions for core equipment and on-site start-up (commissioning of the plant) service instruction documentation to maximize the operational performance of the complete system. Through research and development, technology introduction and joint development, the Group has original process package products mainly in the following fields:

(1) Photovoltaic raw materials (silicon production sector);

(2) Lithium battery raw materials (wet metallurgy process, electrolyte configuration process, additive production process, solvent recovery process, etc.);

(3) Semiconductor materials (manufacture of high-purity chemical reagents and other specialty chemicals); and

(4) Specialty chemical materials.

During the Reporting Period, the Group successfully sold process packages as well as ancillary core equipment and engineering solutions for high purity reagents for lithium battery raw materials and semiconductor materials, signifying the Group's value enhancement in the industry chain of the downstream industries and the deepening of the strategic cooperation relationship with its customers. In addition, process packages and ancillary equipment for other industries are currently being delivered by the Group and are scheduled to commence operation within this year.

Continual Services

In general, manufacturing enterprises need to rely on the continuous expansion of production capacity in the process of development to generate cost economies of scale, so as to increase their market share and improve their competitive advantages. Asset-heavy enterprises are usually constrained by the gradually strong non-general-purpose attributes, cyclical ups and downs of demand from the downstream industries, and intensified homogenization of competition in the process of development, which eventually leads to a continuous decline in profitability.

The Group's continual services include not only in-depth cooperation with downstream industrial customers in capital expenditure projects (through the MVP Solutions+ strategy), but also joint research and development, technical consultation, technical improvement, consumable solutions, construction of digital operation and maintenance platforms and operation and maintenance, etc. This continual service will maximize the multiple synergies between the Group and its customers in terms of strategy, value and development, and help the Group create long-term interactions with customers.

Through the digital operation and maintenance platform, the Group provides operation and maintenance and consumables management for the new technologies and devices of the downstream industry, realizes effective connection services with customers, tracks the technical performance of the Group's products and the operation of the customers' devices (e.g., production volume, quality, energy consumption, defects and failure rate) in a timely manner, and provides timely solutions for system maintenance, replacement of consumables and technological improvement. Through its existing digital platform development, application and management, the Group is also able to provide its customers with digital full life cycle services covering their new technologies and products, including digital research and development, design, manufacturing, delivery and operation and maintenance.

The provision of continual services to downstream customers at different stages of development is an effective tool to keep abreast of the latest downstream needs, industry trends and the second development curve of enterprises, and is also one of the Group's development strategies with long-term practice. The Group's subsidiaries in Asia, the Americas and Europe are able to provide global customers with continual services covering a wide range of cyclical needs at the stages of research and development, capital expenditure investment, operation and maintenance and upgrading.

CUSTOMER RELATIONSHIP AND DEVELOPMENT RESILIENCE

Customer relationships are one of the Group's most important assets, and the long-term trust of our customers is the driving force for the continuous growth of the Group.

The Group has maintained active interaction with its customers worldwide. The sales team, under the leadership of the executive directors of the Company, paid several visits to important overseas customers in various countries and achieved positive results in the overseas markets during the post-pandemic period. During the Reporting Period, the proportion of overseas orders among the Group's new orders was approximately 70.89%.

The Group's main business mainly comes from the capital expenditure projects of various downstream industries, which relies on the Group's long-standing and good cooperative relationship with the leading enterprises in various industries. The needs of the leading enterprises in various industries represent the future development trend as well as the most cutting-edge technologies of the industries in which they operate, the Group's long-standing strategy of "running in tandem", which closely follows the development needs of the leading enterprises in various industries, could not only empower the downstream advanced technologies to materialize as soon as possible, but also continuously realize the Group's business objectives through cooperation in research and development, project implementation and in-depth development.

Since 1999, the Group has been actively engaging with leading enterprises and multinational companies from different industries, starting from participating in their domestic investment projects in China and gradually integrating into their international supply chains, and through more than 20 years of practice, the Group has realized the continuous value upgrade in the supply chains of many multinational enterprises. The Group maintains long-term relationships with many international leading enterprises in the traditional downstream industries (oil and gas refining, pharmaceutical, chemical and household chemical industries) and provides diversified products and services to the same customers in different countries and regions according to the development trend of the downstream industries. Meanwhile, in emerging fields such as raw materials for power batteries and electronic chemicals, the Group has leveraged on its comprehensive strengths accumulated in other industries to actively expand its business and technology horizontally, and has developed a variety of products and services, including process packages, core equipment and total solutions, to meet the needs of multinational enterprises for global capacity deployment.

Generally speaking, from entering the supply chain of a multinational enterprise to becoming a strategic partner in its global supply chain, it is necessary to go through the process of Audit — Qualification — Project Cooperation — Value Upgrade — Global Cooperation — Global Strategic Cooperation mostly around new technologies and new capabilities. This process is time-consuming and can take up to 10 or more years. Starting from the bottom of the supply chain, from low-cost solutions to the highest value point of the supply chain of a leading international company, it requires continuous proactive learning and lateral self-improvement of the Group, and ultimately the mutual empowerment of the Group and its customers on a global scale.

With the demand for overseas capital expenditure projects gradually recovering from the COVID-19 pandemic (the "**Pandemic**"), the Group has actively integrated itself into the investment needs of various sectors in the international market, engaging with customers on their investment needs at various stages through its global subsidiaries, and has successfully undertaken major overseas investment projects of different downstream industries during the Reporting Period. This not only signifies the effectiveness of the Group's strategy of balancing domestic and overseas markets, but also demonstrates the Group's resilience in overcoming short-term shortfalls in localized markets by consistently servicing the needs of multi-sector, multinational corporations with inherent cyclicality in their global capital expenditure projects.

Saturation (or even overcapacity) of production capacity in localized markets and the gradual entry of different industries into a downward cycle are far from uncommon in the course of the Group's development. The Group's resilience and dynamic development in overcoming cycles and transcending cycles by not relying on a single product, tilting towards a single market or a small number of customers over a long period of time are the key to the Group's continuous growth, which has been made possible by the continuous improvement of the value attributes of the Group's products, the strengthening of the continual service model and the expansion of the Group's deployment of overseas resources. In addition, the advantages of strong overall strength, firm customer adhesion, excellent platform building capability and strong ability to land opportunities ensure that the Group will seize the window of opportunities in the market and the industry, and enhance its anti-risk capability while realizing counter-cyclical and sustainable development.

ADDITIONS AND EXPANSIONS OF PRODUCTION CAPACITY

Changshu Manufacturing Base

The first phase of the Group's high-end equipment manufacturing base project of Morimatsu (Suzhou) LifeSciences Company Limited (森松(蘇州)生命科技有限公司) in Changshu, Suzhou, Jiangsu Province, which is approximately 130,000 square meters in size, is expected to begin partial trial operations in the third quarter of 2023 and delivered in the fourth quarter of 2023. Upon commencement of production, the manufacturing base will mainly provide high-end process equipment and digitalized complete sets of equipment for the fields of biopharmaceutical and wet electronics chemicals, daily chemical industry and other precision industries with high cleanliness requirements. Based on the current market supply and demand as well as the Group's orders at hand, the Group expects that the new production capacity will be fully utilized.

Changshu Manufacturing Base

Malaysia Manufacturing Base

The manufacturing facility of the Group's joint venture company, Morimatsu Dialog (Malaysia) Sdn. Bhd. ("**Morimatsu Dialog**"), located in Pengerang, Malaysia (the "**Malaysia Manufacturing Base**"), is progressing steadily according to plan. It has currently received orders from North America, Europe and Asia, which are mainly from the electronic chemicals industry (semiconductor materials — high purity chemical reagents) and the power battery raw materials field (recovery of solvents, configuration of electrolyte and production of additives). The Group plans to utilize the available funds to further expand the production capacity of Morimatsu Dialog as an overseas extension of the Group's overall production capacity to more effectively reach the North American market and other regions and serve the power battery raw materials field, oil and gas refining industry, chemical industry and pharmaceutical (including biopharmaceuticals) industry in these areas.

Malaysia Manufacturing Base (design renderings)

TALENT AND RESEARCH AND DEVELOPMENT

“Invest”, “Build” and “Develop” are the three key words in the Group’s talent strategy.

Talent is the Group’s most valuable asset and investment in talent is the Group’s most important investment item. During the Reporting Period, the Group had a total of over 4,000 employees, of which over 600 were research and development personnel.

The Group’s employees engaged in technical and process-related work can be divided into the following three categories:

(1) Craftspeople, who are process designers in a particular downstream industry/field. This category of personnel directly serves the customers’ process needs, including final product quality, production volume, and production energy consumption and other key economic indicators. The nature of the work of this type of personnel does not have a high degree of industry versatility, so they are usually composed of industry-specific specialists.

(2) Engineering personnel, who are personnel with specialized knowledge in various fields such as equipment, plumbing, electrical and instrumental controls, or construction to serve the requirements of the process. These personnel assist craftspeople in the completion of engineering products and ancillary services required by customers’ processes. The nature of the work of such personnel has a high degree of industry versatility, and can serve all the current industry segments of the Group.

(3) Manufacturing personnel, who are employees serving on the production line. Such personnel carry out manufacturing and construction work in accordance with the drawings prepared by engineers and construction procedures (including safety, quality and progress requirements). The nature of the work of such personnel has a high degree of industry versatility, and can serve the needs of the vast majority of the Group’s current industry product manufacturing.

By maintaining and strengthening the Group’s staffing structure to ensure maximum versatility of talents, the Group has enhanced the cross-sectoral service capability of its staff during the rapid development stage of the enterprise, thus further strengthening the enterprise’s anti-cyclical capability. During the Reporting Period, the Group sent a number of key technical personnel to renowned universities in China and Japan to participate in university-enterprise collaborative research and development projects (targeting the development and application of new materials in various industries) while pursuing their doctoral degrees. At the same time, the Group continued to accelerate its internationalization, with the Singapore subsidiary and the Malaysia joint venture company entering a period of rapid development and the number of staff rising rapidly in tandem with the expansion of business volume; while the subsidiaries in India, Europe and Japan maintained a steady development, continuing to serve the Group’s customers and projects around the world.

The Group continued to support its internal venture teams by providing platform-type incubation services on the basis of open sharing of resources and markets to facilitate the development of new products and technologies, covering fields such as new materials, biopharmaceuticals, advanced industrial equipment and industrial automation technologies. Among them, the entrepreneurial team for the development of disposable bioreaction technology and related products has become a legal person in the form of a subsidiary of the Company, and successfully realized operating revenues.

Through the establishment of joint laboratories with downstream enterprises, cooperative development projects with renowned universities and internal independent innovation, the Group's research and development team has continued to develop new technologies and devices in the fields of (1) industrial automation technologies for advanced manufacturing; (2) process design and engineering of biological and new pharmaceutical technologies; (3) production process systems for advanced biological vaccines; (4) disposable biological reaction systems (including consumables); (5) production system of new lithium battery ternary cathode materials; (6) design and manufacturing of new industrial high-end process equipment; (7) new green energy production technologies and devices; (8) production technologies and devices of new semiconductor industry-related materials; and (9) synthesis technologies and production systems of new materials (e.g., sustainable energy and green fuels, etc.).

THROUGH THE CYCLE TO PURSUE CONTINUOUS GROWTH

With our long term philosophy to "keep in line with leading companies, balance internal and external markets and valued service as a priority", despite the fact that some downstream industries/fields in China (especially pharmaceuticals, raw materials for power batteries and electronic chemicals) were saturated or even overcapacitated during the post-pandemic period, resulting in a significant year-on-year decline in demand, the Group still managed to achieve considerable new contract volume from a number of downstream industries during the Reporting Period. The types of products and services involved in the Group's new contracts are becoming more diversified and more closely related to the downstream industries, making the Group increasingly resilient to risk and the cyclicality of individual industries, and realize overall counter-cyclical growth. The Group serves the inherent investment cycles of leading enterprises in various industries and the development needs of new technologies and new products, and directly addresses the future value needs of its downstream customers, pursuing long-term corporate strategic alignment with its customers, which in turn continuously drives the Group to develop new products and provide continual services throughout the entire technological lifecycle of the new products.

The global economic development in the post-pandemic period has opened up a new window of demand for the continuous growth of the Group's revenue, especially in industries related to renewable energy, environmental materials, green health and smart computing, which have witnessed a significant investment boom globally. Thanks to its long-standing market reputation, technological know-how, talent strength and industry accumulation, and the strong development vitality given to the Group by internationalization and diversification, the Group is still able to adjust its resource allocation in the shortest possible time to serve more active relevant markets in the event of a significant imbalance between domestic and overseas demand. From lowered demand in 2021 and 2022 to heavy demand in 2023, the Group has once again demonstrated its ability to weather the headwinds and go through the cycles, blossoming in a number of downstream industries in overseas markets, and integrating into the global supply chain within different systems with its strong technological edge and sufficient service resources.

At a time when the momentum of global industrial development is picking up speed, especially in the fields of non-traditional energy, renewable materials, advanced biomedicine and semiconductor materials, there is a diversification in the types of end demand, the origins of raw materials as well as a diversification in the supply chain. The Group will continue to capitalize on its technology reserves and research and development capabilities in its global footprint, abundant hardware production capacity in the Asia-Pacific region as well as rich customer and market resources to maintain a steady growth trend in operating revenue, and carry out further value penetration into new products and new technological needs of the downstream industries to continuously increase the share of service-based revenue.

The Group will make full use of the newly built production capacity of the Changshu and Malaysia manufacturing bases to actively participate in the new round of technological changes and product iterations in a number of industries around the world, providing advanced products and services to meet the needs of customers from different countries, and contributing to the establishment of a healthier society, a greener environment and a smarter life.

The Group will continue to deepen the implementation of its existing talent strategy, cultivate talents through various means, and actively strive to incubate new technologies, new products and new development entities, so as to lead the industry and carry out global layout, and realize dynamic development and sustainable growth in multiple tracks and fields.

All in all, the Group will continue to strengthen its Alpha Strategy, enhance its international coverage, and continue to meet the needs arising from future development and technological innovation around the globe, thereby enabling the Group to diversify and minimize the impacts of saturated capacity or shrinking demand in a single market and industry. With the recovery of global economy to pre-pandemic levels, we have seen emerging market opportunities in the downstream around the globe. Emerging applications in fields such as sustainable energy and materials, "green, health and intelligence" also thrive in the broader market. The business strategy to "serve the world, serve innovation and the needs of leading enterprises in the long run" will continue to empower the Group with foresight in dynamic market expectations and resilience to defy the risks due to market cycles, and will ultimately ensure our achievement in its long-term growth objectives.

FINANCIAL DATA

Revenue

The Group's revenue increased by approximately 24.5% from approximately RMB2,964,865,000 for the six months ended 30 June 2022 to approximately RMB3,691,759,000 for the six months ended 30 June 2023. Such increase was mainly attributable to the increased orders from the electronic chemicals, pharmaceuticals and other industries.

	Six months ended 30 June					Year-on-year
	2023		2022		Increase	change
Revenue	***RMB'000*** **(unaudited)**	***Proportion***	*RMB'000* (unaudited)	*Proportion*	*RMB'000*	
Electronic chemical	**657,367**	**17.8%**	272,742	9.2%	384,625	141.0%
Chemical	**774,064**	**21.0%**	860,220	29.0%	-86,156	-10.0%
Family care*	**183,271**	**5.0%**	63,412	2.1%	119,859	189.0%
Raw materials of power battery#	**463,927**	**12.6%**	374,343	12.6%	89,584	23.9%
Oil and gas refinery	**221,536**	**6.0%**	77,059	2.6%	144,477	187.5%
Pharmaceutical and biopharmaceutical	**1,318,816**	**35.7%**	1,131,757	38.2%	187,059	16.5%
Others	**72,778**	**1.9%**	185,332	6.3%	-112,554	-60.7%
Total	**3,691,759**	**100.0%**	2,964,865	100.0%	726,894	24.5%

* The English translation of "日化" has been changed from "daily chemical" to "family care" for business identification purposes. The offerings and products under this industry remain unchanged.

Raw materials of power battery include mining and metallurgy industry.

Cost of Sales

The cost of sales of the Group increased by approximately 23.3% from approximately RMB2,176,441,000 for the six months ended 30 June 2022 to approximately RMB2,682,667,000 for the six months ended 30 June 2023. The increase in cost of sales was basically in line with that of the Group's revenue.

	Six months ended 30 June					Year-on-year
	2023		2022		Increase	change
Cost of Sales	*RMB'000* (unaudited)	*Proportion*	*RMB'000* (unaudited)	*Proportion*	*RMB'000*	
Raw materials and consumables	**1,815,889**	**67.7%**	1,446,587	66.5%	369,302	25.5%
Direct labour cost	**251,526**	**9.4%**	231,631	10.6%	19,895	8.6%
Outsourcing fees	**238,855**	**8.9%**	179,804	8.3%	59,051	32.8%
Installation and repair cost	**237,553**	**8.9%**	193,694	8.9%	43,859	22.6%
Depreciation	**35,171**	**1.3%**	30,550	1.4%	4,621	15.1%
Impairment losses on assets	**4,034**	**0.2%**	-268	0.0%	4,302	-1,605.2%
Others (indirect labour cost + design fees)	**99,639**	**3.6%**	94,443	4.3%	5,196	5.5%
Total	**2,682,667**	**100.0%**	2,176,441	100.0%	506,226	23.3%

Gross Profit and Gross Profit Margin

The Group's gross profit increased by approximately 28.0% from approximately RMB788,424,000 for the six months ended 30 June 2022 to approximately RMB1,009,092,000 for the six months ended 30 June 2023, representing a gross profit margin of approximately 27.3%. The growth in gross profit was slightly higher than the growth in revenue, which was mainly attributable to the improvement in production efficiency of the Group.

Selling and Marketing Expenses

The selling and marketing expenses of the Group decreased by approximately RMB16,451,000 from approximately RMB95,437,000 for the six months ended 30 June 2022 to approximately RMB78,986,000 for the six months ended 30 June 2023, which was mainly attributable to the decrease in the commissions paid to third parties as result of the gradual completion of certain projects with high commissions. Selling and marketing expenses as a percentage of total revenue was approximately 2.1% for the six months ended 30 June 2023 (corresponding period in 2022: 3.2%).

General and Administrative Expenses

General and administrative expenses of the Group increased by approximately RMB40,687,000 from approximately RMB228,481,000 for the six months ended 30 June 2022 to approximately RMB269,168,000 for the six months ended 30 June 2023, which was mainly attributable to (1) the continuous expansion of the business scale of the Group and the increase in the number of managerial and administrative staff, which led to the subsequent increase in salary and benefit expenses; and (2) the increase in travel expenses and representation allowance increased after the lifting of travel restrictions and quarantine measures relating to the Pandemic since late December 2022. General and administrative expenses as a percentage of total revenue was approximately 7.3% for the six months ended 30 June 2023 (corresponding period in 2022: 7.7%).

Research and Development Expenses

The research and development expenses of the Group increased by approximately RMB22,585,000 from approximately RMB145,505,000 for the six months ended 30 June 2022 to approximately RMB168,090,000 for the six months ended 30 June 2023, which was mainly attributable to (1) the increase of over 100 headcounts in research and development personnel of the Group as compared to the same period last year, resulting in an increase in research and development labor costs; and (2) the increase in investment in research and development by the Group in new energy and energy-saving technologies, which resulted in an increase in research and development materials and trial production investment as compared to the corresponding period in 2022.

Net Profit and Net Profit Margin

Due to the combined effect of the foregoing, the net profit of the Group increased by approximately RMB118,493,000 from approximately RMB302,536,000 for the six months ended 30 June 2022 to approximately RMB421,029,000 for the six months ended 30 June 2023. The Group's net profit margin for the six months ended 30 June 2023 was approximately 11.4%, representing an increase of approximately 1.2% as compared to that of approximately 10.2% for the corresponding period ended 30 June 2022.

Non-HKFRS Measures

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

EBITDA and Adjusted EBITDA

EBITDA for the six months ended 30 June 2023 was approximately RMB573,450,000, representing an increase of approximately RMB172,803,000, or an increase of approximately 43.1%, as compared to the EBITDA of approximately RMB400,647,000 for the six months ended 30 June 2022. Excluding the share-based payments, adjusted EBITDA for the six months ended 30 June 2023 was approximately RMB626,959,000, representing an increase of approximately RMB156,887,000, or an increase of approximately 33.4%, as compared to the adjusted EBITDA of approximately RMB470,072,000 for the six months ended 30 June 2022.

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net profit for the period	**421,029**	302,536
Add: Income tax expenses	**75,401**	38,692
Interest expenses	**7,339**	7,900
Depreciation	**62,343**	43,672
Amortisation	**7,338**	7,847
EBITDA for the period	**573,450**	400,647
Add: Share-based payments	**53,509**	69,425
Adjusted EBITDA for the period	**626,959**	470,072

Trade and Other Receivables

The Group's trade and other receivables decreased by approximately 8.0% from approximately RMB1,165,785,000 as at 31 December 2022 to approximately RMB1,071,959,000 as at 30 June 2023, which was mainly attributable to the decrease in prepayments as some of the orders on hand had not yet commenced large-scale purchase of raw materials.

Contract liabilities

The Group's contract liabilities decreased by approximately 2.4% from approximately RMB2,890,048,000 as at 31 December 2022 to approximately RMB2,821,847,000 as at 30 June 2023 as a result of the recognition of revenue from certain large sum orders.

Liquidity and Capital Resources

The balance of cash and cash equivalents of the Group was approximately RMB1,932,305,000 as at 30 June 2023, which was mainly denominated in RMB, United States dollars ("**US$**"), HKD, Japanese Yen ("**JPY**") and Euro, representing an increase of approximately RMB561,946,000 as compared with approximately RMB1,370,359,000 as at 31 December 2022. The Group purchased short-term financial products issued by banks with idle funds under the premise of ensuring liquidity, and the outstanding amount as at 30 June 2023 was approximately RMB480,635,000.

The liquidity of the Group mainly includes cash generated from operating activities, allotment and issuance of equity securities/net proceeds from the global offering and bank borrowings. The liquidity demand mainly includes business working capital and capital expenditures.

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

As at 30 June 2023, the Group's total banking facilities amounted to RMB2,115,000,000, US$146,314,000, Swedish Krona 300,000,000, HK$93,000,000 and JPY16,400,000,000 (equivalent to approximately RMB4,281,388,000 in aggregate), and utilized banking facilities amounted to approximately RMB869,790,000, US$54,324,000, Euro3,094,000, HK$93,000,000 and JPY82,000,000 (equivalent to approximately RMB1,376,549,000 in aggregate), and the unutilized banking facilities amounted to approximately RMB2,904,839,000.

Borrowings and Gearing Ratio

The aggregated borrowings of the Group decreased by approximately 10.0% from approximately RMB444,233,000 as at 31 December 2022 to approximately RMB399,788,000 as at 30 June 2023, and the borrowings were mainly used to pay for a portion of the amount required for the construction of projects.

As at 30 June 2023, the interest rates of the Group's borrowings ranged from 3.73% to 6.29%, of which approximately RMB180,240,000 were fixed rate borrowings and approximately RMB219,548,000 were variable rate borrowings. Borrowings denominated in RMB amounted to approximately RMB313,578,000, of which approximately RMB180,378,000 will be due within 1 year and approximately RMB133,200,000 will be due between 2 and 5 years; borrowings denominated in HK$ amounted to approximately RMB86,210,000, of which approximately RMB466,000 will be due within 1 year and approximately RMB85,744,000 will be due after 1 year but within 2 years.

Gearing ratio is calculated using interest-bearing borrowings divided by total equity. The gearing ratio of the Group decreased from approximately 15.7% as at 31 December 2022 to approximately 10.2% as at 30 June 2023, mainly due to the increase in reserves as a result of the increase in equity and earnings during the Reporting Period.

Charges on the Group's Assets

As at 30 June 2023, there were no charges on the Group's assets.

Contingent Liabilities

As at 30 June 2023, the Group did not have any significant contingent liabilities.

Issue of Equity Securities

On 4 January 2023, the Company, Morimatsu Holdings Co., Ltd. (森松ホールディングス株式会社) ("**Morimatsu Holdings**") and China International Capital Corporation Hong Kong Securities Limited ("**CICC**") entered into the placing and subscription agreement, pursuant to which: (1) Morimatsu Holdings agreed to appoint CICC and CICC agreed to act as agent for Morimatsu Holdings to procure in good faith that purchasers would purchase an aggregate of up to 80,000,000 existing shares (the "**Sale Shares**") at the placing price of HK$8.30 per Sale Share (the "**Placing**"); and (2) Morimatsu Holdings agreed to subscribe for, and the Company agreed to allot and issue to Morimatsu Holdings, an aggregate of up to 80,000,000 new shares (the "**Subscription Shares**") at the same subscription price as the placing price (the "**Subscription**"), in each case on the terms and subject to the conditions set out in the placing and subscription agreement. The closing price per share of the Company as quoted on the Stock Exchange on 4 January 2023 was HK$9.47 and the total number of issued shares as at 4 January 2023 was 1,073,795,900.

On 9 January 2023, the Placing was completed in accordance with the terms and conditions of the placing and subscription agreement and an aggregate of 80,000,000 Sale Shares were successfully placed to not less than six placees, who, together with their respective ultimate beneficial owners, were independent third parties, at the placing price of HK$8.30 per Sale Share. As all the conditions of the Subscription have been fulfilled, on 12 January 2023, the Company has allotted and issued 80,000,000 Subscription Shares to Morimatsu Holdings at a price of HK$8.30 per Subscription Share in accordance with the terms and conditions of the placing and subscription agreement. The net proceeds from the Subscription (after deducting all fees, costs and expenses incurred by the Company and Morimatsu Holdings in connection with the Placing and the Subscription) amounted to approximately HK$654.7 million (the "**Net Proceeds from the Subscription**").

The Group intends to use the Net Proceeds from the Subscription primarily for the construction of the Group's factory buildings in Suzhou, the PRC and Malaysia, to accelerate the Group's expansion into the European market and for general corporate purposes. The Company has allocated and will continue to allocate and utilize the Net Proceeds from the Subscription for matters consistent with the purposes as further detailed in the announcement of the Company dated 4 January 2023 and during the Reporting Period, the Group has utilized the Net Proceeds from the Subscription as set out in the table below:

	Net Proceeds from the Subscription actually distributed *HK$'000*	Net Proceeds from the Subscription actually distributed *RMB'000*	Distribution of Net Proceeds from the Subscription as a percentage of total Net Proceeds from the Subscription *%*	**Amounts of the Net Proceeds from the Subscription utilized during the Reporting Period** ***RMB'000***	**Unused Net Proceeds from the Subscription as at 30 June 2023** ***RMB'000***	Estimated timing for utilizing the remaining Net Proceeds from the Subscription
Construction of Changshu Manufacturing Base	327,335	283,603	50.0%	**173,690**	**109,913**	By the end of 2023
Construction of Malaysia Manufacturing Base*	261,868	226,883	40.0%	**–**	**226,883**	By the end of 2024
Expansion of European Market	32,733	28,360	5.0%		**28,360**	By the end of 2024
General working capital	32,733	28,360	5.0%	**28,360**	**–**	
Subtotal	654,669	567,206	100.0%	**202,050**	**365,156**	

* The Malaysia Manufacturing Base is the Group's overseas outpost which actively relies on the resources of Southeast Asia to cope with global trade. In order to further expand the production capacity of the Malaysia Manufacturing Base, the Group plans to increase the area of the production site in the Malaysia Manufacturing Base and carry out renovation and upgrading, with the construction commencing in the second half of 2023. The Malaysia Manufacturing Base will serve as a useful supplement to the Group's overseas production capacity.

Please refer to the Company's announcements dated 4 January 2023 and 12 January 2023 for further details of the Placing and the Subscription.

Save as disclosed above, the Company did not have any other issuance of equity securities (including securities convertible into equity securities) for cash during the Reporting Period.

Significant Investments, Acquisitions and Disposals

On 16 January 2023, the Company established a new wholly-owned subsidiary, Morimatsu Pharmadule (Singapore) Pte. Ltd. ("**Pharmadule Singapore**"), which is primarily engaged in providing technical and service support for the Group's business expansion in Southeast Asia. As at 30 June 2023, the registered capital of Pharmadule Singapore was S$500,000.

On 24 February 2023, the board of Morimatsu Technology and Service Company Limited, a subsidiary of the Company, resolved to increase the capital contribution to Morimatsu Dialog by RM5,610,000. As at 30 June 2023, the share capital of Morimatsu Dialog was RM25,000,000.

On 30 May 2023, Morimatsu Heavy Industries, a subsidiary of the Group, and seven partners established An Yi Morimatsu Gao Kun Number One Venture Capital Fund Partnership (Limited Partnership) in the PRC, which is principally engaged in activities such as equity investment and investment management. As at 30 June 2023, the capital contribution of the partnership was RMB20.2 million, in which the Company indirectly accounted for 24.75%.

During the Interim Period, pursuant to an investment agreement, Morimatsu Pharmaceutical Equipment, a subsidiary of the Group, completed a capital contribution of RMB20 million to its associate namely Jiangsu Qunchuang Wisdom New Material Co., Ltd. (江蘇群創智慧新材料有限公司).

Save as disclosed above, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the Reporting Period, and the Group had no future plan for material investments or capital assets as at 30 June 2023.

Important Events after the Reporting Period

On 3 August 2023, the Group established a new subsidiary, Shanghai Morimatsu Hi-Purity Neo-Tech Co., Ltd. (上海森松皓純新材料科技有限公司), which is principally engaged in the development and sales of high-purity chemical reagent production technology and equipment. The registered capital of the company is RMB10 million, and the Company indirectly holds 88% equity interest in the company.

Save as disclosed above, as at the date of this announcement, the Group has no material events after the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has adopted and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules and there had been no deviation from the code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors. Having made specific enquiries with all Directors, they have confirmed that they have complied with the Model Code at all times during the Interim Period.

AUDIT COMMITTEE

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

DIVIDEND

The Directors resolved not to declare the payment of any interim dividend for the six months ended 30 June 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

Hong Kong, 22 August 2023

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

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