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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2155)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2023	2022
	RMB	*RMB*
Revenue	**7,360,262,000**	6,486,277,000
Gross profit	**2,055,704,000**	1,793,386,000
Gross profit margin	**27.9%**	27.6%
Net profit	**842,548,000**	666,182,000
Net profit margin	**11.4%**	10.3%
New orders amounts	**7,784,856,000**	9,355,794,000
EBITDA *Note*	**1,143,066,000**	890,682,000
Basic earnings per Share	**0.73**	0.64
Diluted earnings per Share	**0.67**	0.58

	As at 31 December	
	2023	2022
	RMB	*RMB*
Aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	**9,077,735,000**	8,621,816,000

Note: EBITDA represents the profit before taxation, adjusted for the exclusion of finance costs, depreciation and amortization.

The board (the "**Board**") of directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2023 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**Year ended 31 December 2023** *RMB'000*	2022 *RMB'000*
Revenue	*2*	**7,360,262**	6,486,277
Cost of sales		**(5,304,558)**	(4,692,891)
Gross profit		**2,055,704**	1,793,386
Other income/(loss)	*3*	**85,462**	(701)
Selling and marketing expenses		**(175,228)**	(184,460)
General and administrative expenses		**(543,143)**	(510,448)
Research and development expenses		**(418,149)**	(316,084)
Reversal of/(provision for) impairment loss on trade receivables and contract assets		**861**	(100)
Profit from operations		**1,005,507**	781,593
Finance costs	*4(a)*	**(13,291)**	(15,951)
Shares of results of associates		**4**	(2)
Shares of results of joint venture		**(7,886)**	(4,723)
Profit before taxation	*4*	**984,334**	760,917
Income tax	*5(a)*	**(141,786)**	(94,735)
Profit for the year		**842,548**	666,182
Attributable to:			
Equity shareholders of the Company		**844,684**	669,266
Non-controlling interests		**(2,136)**	(3,084)
Profit for the year		**842,548**	666,182
Earnings per share	*6*		
Basic *(RMB)*		**0.73**	0.64
Diluted *(RMB)*		**0.67**	0.58

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Profit for the year	**842,548**	666,182
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	**25,531**	615
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	**3,595**	(1,348)
Other comprehensive income for the year	**29,126**	(733)
Total comprehensive income for the year	**871,674**	665,449
Attributable to:		
Equity shareholders of the Company	**873,810**	668,533
Non-controlling interests	**(2,136)**	(3,084)
Total comprehensive income for the year	**871,674**	665,449

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December **2023** *RMB'000*	2022 *RMB'000*
Non-current assets			
Property, plant and equipment		**2,105,463**	1,609,565
Right-of-use assets		**189,565**	198,888
Intangible assets		**30,612**	31,079
Interests in associates		**65,361**	20,016
Interest in joint venture		**57,428**	6,155
Financial assets measured at fair value through profit or loss ("**FVPL**")	*12*	**10,100**	10,000
Deferred tax assets		**13,991**	7,120
Other non-current assets	*7*	**65,577**	243,212
		2,538,097	2,126,035
Current assets			
Inventories		**1,800,466**	2,213,728
Contract assets	*8(a)*	**866,310**	830,927
Trade and other receivables	*9*	**1,499,372**	1,165,785
Financial assets measured at fair value through profit or loss ("**FVPL**")	*12*	**59,149**	253,748
Cash and cash equivalents		**2,168,682**	1,370,359
		6,393,979	5,834,547
Current liabilities			
Trade and other payables	*10*	**1,669,850**	1,633,543
Contract liabilities	*8(b)*	**2,290,334**	2,890,048
Financial liabilities measured at fair value through profit or loss ("**FVPL**")	*12*	**—**	1,240
Interest-bearing borrowings		**185,524**	254,599
Lease liabilities		**4,312**	6,059
Current taxation		**90,089**	68,467
Provisions		**30,904**	25,450
		4,271,013	4,879,406
Net current assets		**2,122,966**	955,141
Total assets less current liabilities		**4,661,063**	3,081,176

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Non-current liabilities			
Interest-bearing borrowings		**179,559**	189,634
Lease liabilities		**14,938**	17,104
Deferred tax liabilities		**31,593**	9,358
Deferred income		**44,364**	42,434
		270,454	258,530
Net assets		**4,390,609**	2,822,646
Capital and reserves	*11*		
Share capital		**1,302,751**	643,657
Reserves		**3,079,740**	2,172,073
Total equity attributable to equity shareholders of the Company		**4,382,491**	2,815,730
Non-controlling interests		**8,118**	6,916
Total equity		**4,390,609**	2,822,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 MATERIAL 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**"), and the disclosure requirements of the Hong Kong Companies Ordinance (the "**Companies Ordinance**"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). Material accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 comprise the Group and the Group's interest in associates and a joint venture.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— Investment in unlisted equity securities;

— Monetary fund; and

— Forward exchange contracts.

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

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

The financial information relating to the years ended 31 December 2023 and 2022 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

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

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

(c) 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:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- 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. The adoption of these accounting policies did not have significant impact on the financial statements.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

(i) Disaggregation of revenue

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— traditional pressure equipment	**2,590,675**	2,662,892
— reactor	**1,114,356**	1,399,610
— heat exchanger	**739,517**	567,805
— tank	**352,902**	347,012
— tower	**383,900**	348,465
— modular pressure equipment	**4,553,792**	3,648,656
— others*	**31,325**	32,274
Sales of products	**7,175,792**	6,343,822
— Pressure equipment design, validation, and maintenance service	**184,470**	142,455
Service	**184,470**	142,455
Revenue of operations	**7,360,262**	6,486,277

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

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

The Group's customer base is diversified and includes one customer only with whom transactions have exceeded 10% of the Group's revenues of the year ended 31 December 2023 (2022: one). Revenues from this customer during year ended 31 December 2023 are set out below:

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Customer A	**798,967**	*
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 2023, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB9,077,735,000 (as at 31 December 2022: RMB8,621,816,000). This amount represents revenue expected to be recognised in the future from contracts with customers in existence at the reporting date. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 to 36 months.

(iii) ***Geographic information***

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

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

	Revenues from external customers	
	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Mainland China	**3,886,406**	3,649,610
North America	**863,532**	515,899
Asia (excluding mainland China)	**1,824,800**	1,007,267
Europe	**246,198**	455,127
Africa	**336,286**	767,103
Others *(Note)*	**203,040**	91,271
	7,360,262	6,486,277

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

(b) Segment reporting

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

3 OTHER INCOME/(LOSS)

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Government grants *(i)*	**28,090**	3,306
Interest income	**59,765**	15,259
Net realised gains on monetary fund	**10,014**	8,627
Net realised gains/(losses) on forward exchange contracts	**150**	(23,467)
Net foreign exchange losses	**(16,263)**	(6,414)
Changes in fair value of financial assets and liabilities	**249**	(292)
Net loss on disposal of property, plant and equipment	**(377)**	(1,103)
Others	**3,834**	3,383
	85,462	(701)

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

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on interest-bearing borrowings	**12,369**	15,413
Interest on lease liabilities	**922**	538
	13,291	15,951
(b) Staff costs:		
Salaries, wages and other benefits	**1,128,338**	857,619
Equity-settled share-based payment expenses	**91,688**	139,387
Contributions to defined contribution retirement plans *(i)*	**111,486**	88,510
	1,331,512	1,085,516

(i) Employees of the Group's subsidiaries in the People Republic of China (the "**PRC**") are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
(c) Other items:		
Amortisation of intangible assets	**17,367**	15,371
Depreciation charge		
— owned property, plant and equipment	**116,263**	89,668
— right-of-use assets	**11,811**	8,775
Auditor's remuneration		
— audit services	**4,070**	3,890
Research and development costs *(i)*	**418,149**	316,084
Increase in provisions	**12,964**	14,487
Cost of inventories *(ii)*	**5,304,558**	4,692,891
Expense relating to short-term leases	**65,713**	44,811

(i) Research and development costs included staff costs of RMB194,026,000 (2022: RMB155,469,000), depreciation and amortisation expenses of RMB10,704,000 (2022: RMB10,296,000), which are also included in the respective total amounts disclosed separately above or in Note 4(b).

(ii) Cost of inventories included staff costs of RMB628,220,000 (2022: RMB538,824,000), depreciation and amortisation expenses of RMB98,259,000 (2022: RMB61,968,000), which are also included in the respective total amounts disclosed separately above or in Note 4(b).

5 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current tax:		
Provision for the year	**126,422**	96,623
Deferred tax:		
Origination and reversal of temporary differences	**15,364**	(1,888)
Actual tax expense	**141,786**	94,735

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

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Profit before taxation		**984,334**	760,917
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	*(i)(ii)*	**147,458**	118,037
Additional deduction for qualified research and development expenses	*(iii)*	**(34,836)**	(29,275)
(Over)/Under-provision in respect of prior year		**(3,709)**	249
Non-deductible expenses		**21,967**	10,565
Tax effect of unrecognised loss	*(v)*	**(858)**	(8,654)
Tax effect of unrecognised temporary difference		**(3,157)**	3,813
Withholding tax on the profits of the Group's PRC subsidiaries	*(iv)*	**14,921**	—
Actual tax expense		**141,786**	94,735

(i) Under the Corporate Income Tax Law of the PRC, 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 companies use the losses arising from the previous years and did not have income subject to Hong Kong Profits Tax during 2023 and 2022 respectively.

Pursuant to the income tax rules and regulations of the Kingdom of Sweden, Pharmadule Morimatsu AB was subject to the Sweden Corporate Tax at a rate of 20.6% in 2023 and 2022.

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 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, Pharmadule Engineering India Private Limited was subject to the Indian Corporate Tax at a rate of 25.17% in 2023 and 2022.

Pursuant to the income tax rules and regulations of Japan, Pharmadule Technology And Service Company Limited (previous name: Morimatsu Technology and Service Company Limited) and Morimatsu Technology and Service Company Limited ("**Morimatsu T&S**") which was established in 2023 were liable to the Japan Corporate Tax at a rate of 33.58% in 2023 and 2022. No provision for Japanese Corporate Tax was made for Morimatsu T&S as the company did not have income subject to Japanese Corporate Tax during the Reporting Period.

Pursuant to the income tax rules and regulations of the Republic of Italy, Morimatsu Italy S.R.L. was liable to the Italy Corporate Tax at a rate of 24% in 2023 and 2022. 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 United Mexican States, 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% in 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. ("**Pharmadule Singapore**"), Morimatsu Lifesciences (Singapore) Pte. Ltd. ("**Lifesciences Singapore**") and Morimatsu (Singapore) Pte. Ltd. ("**Morimatsu Singapore**"), which were established in 2023, were subject to the Singapore Corporate Tax at a rate of 17% in 2023. No provision for Singapore Corporate Tax was made for Pharmadule Singapore, Lifesciences Singapore and Morimatsu Singapore as the companies did not have income subject to Singapore 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%	2023 and 2022
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%	2023 and 2022
Shanghai Morimatsu Biotechnology Co., Ltd. ("**Morimatsu Biotechnology**") (上海森松生物科技有限公司) *(Note)*	15%	2023

Note: Morimatsu Biotechnology is entitled as a High and New Technology Enterprise in 2023.

(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 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)).

Pursuant to the shareholders' resolution on 30 December 2023, Morimatsu (China) Investment Co., Ltd. ("**Morimatsu Investment**") decided dividends of RMB150,000,000 would be distributed to the Company in the future periods. Accordingly, the Company accrued deferred tax liabilities of RMB14,921,000 based on 10% PRC withholding tax rate.

(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 Investment whose principal activity was investment holding, Shanghai Mori-Biounion Technology Co., Ltd. and Shanghai Morimatsu Engineering Technology Co., Ltd. ("**Morimatsu Engineering Technology**"), who are still at start-up stages.

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB844,684,000 (2022: RMB669,266,000) and the weighted average of 1,163,300,000 ordinary shares of the Company ("**Shares**") (2022: 1,050,774,000 shares) in issue during the year, calculated as follows:

Weighted average number of Shares

	2023	2022
Issued Shares at 1 January	**1,073,796,000**	1,037,500,000
Effect of treasury Shares at 1 January	**(20,883,000)**	—
Effect of allotment of Shares (*Note 11(b)(i)*)	**77,370,000**	—
Effect of exercise of share options *(Note 11(b)(iii))*	**3,550,000**	5,103,000
Effect of vested restricted share units ("**RSUs**") *(Note 11(b)(iii))*	**9,245,000**	—
Effect of vested shares options exercisable for no more than little consideration *(Note (i) below)*	**20,222,000**	8,171,000
Weighted average number of Shares at 31 December	**1,163,300,000**	1,050,774,000

Note (i): The number of Shares outstanding were vested and exercisable from 28 June 2023 and 28 June 2022 for no more than little consideration, as if the shares vested and exercised from the vesting date.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company ("**Shareholders**") of RMB844,684,000 (2022: RMB669,266,000) and the weighted average number of Shares of 1,252,495,000 shares (2022: 1,156,099,000 shares after adjusting for the bonus issue), calculated as follows:

Weighted average number of Shares (diluted)

	2023	2022
Weighted average number of Shares at 31 December	**1,163,300,000**	1,050,774,000
Effect of deemed issue of shares under the Company's pre-IPO share option scheme and restricted unit share ("**RSU**") scheme	**89,195,000**	105,325,000
Weighted average number of Shares (diluted) at 31 December	**1,252,495,000**	1,156,099,000

7 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Prepayments for property, plant and equipment	**51,271**	241,546
Long-term deferred expense	**14,306**	1,666
	65,577	243,212

8 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Contract assets		
Arising from revenue recognised over time	**866,310**	830,927
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" *(Note 9)*	**1,106,792**	682,065

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	
	2023	2022
	RMB'000	*RMB'000*
Contract liabilities		
Billings in advance of performance	**2,290,334**	2,890,048

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 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 and 1 January 2023	**2,890,048**
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	**(2,305,474)**
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	**1,705,760**
At 31 December 2023	**2,290,334**

9 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Bills receivable *(Note (a)(i))*	**132,887**	156,247
Trade debtors net of loss allowance	**1,106,792**	682,065
Other debtors	**69,389**	61,048
Financial assets measured at amortised cost	**1,309,068**	899,360
Prepayments	**190,304**	266,425
	1,499,372	1,165,785

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 2023, the Group did not have bill receivable (as at 31 December 2022: nil) 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 2023, bills endorsed and derecognised, but yet reached maturity amounted to RMB203,861,000 (as at 31 December 2022: RMB507,021,000). 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 RMB95,520,000 endorsed by the Group to its suppliers as at 31 December 2023 (as at 31 December 2022: RMB91,407,000) to settle trade payables of the same amounts, were not derecognised. In the opinion of the directors, the Group retained substantially all risks and rewards of these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated liabilities.

(b) Ageing analysis

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**589,670**	389,805
More than 3 months but less than 1 year	**369,023**	231,885
More than 1 year but less than 2 years	**139,423**	55,467
More than 2 years	**8,676**	4,908
	1,106,792	682,065

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

10 TRADE AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Bills payable	**26,921**	21,577
Trade payables	**1,254,536**	1,233,544
Other payables and accruals	**388,393**	378,422
Financial liabilities measured at amortised cost	**1,669,850**	1,633,543

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	
	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**761,296**	1,005,728
More than 3 months but less than 6 months	**162,953**	181,516
More than 6 months but less than 12 months	**173,368**	36,670
More than 1 year but less than 2 years	**151,868**	5,848
More than 2 years	**5,051**	3,782
	1,254,536	1,233,544

No bills payable (as at 31 December 2022: nil) 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.

11 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** *RMB'000* *Note 11(b)*	**Treasury stock** *RMB'000*	**Capital reserve** *RMB'000*	**Exchange reserve** *RMB'000* *Note 11(c)*	**Retained earnings** *RMB'000*	**Total equity** *RMB'000*
Balance at 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	—	—	139,387	—	—	139,387
Issuance and repurchase of Shares to the Company *(Note 11(b)(ii))*	36,581	(36,581)	—	—	—	—
Exercise of share option *(Note 11(b)(iii))*	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 and 1 January 2023	643,657	(36,580)	695,023	(2,536)	(125,324)	1,174,240
Changes in equity for the year ended 31 December 2023						
Profit for the year	**—**	**—**	**—**	**—**	**200,712**	**200,712**
Allotment of Shares *(Note 11(b)(i))*	**567,206**	**—**	**—**	**—**	**—**	**567,206**
Other comprehensive income for the year	**—**	**—**	**—**	**25,531**	**—**	**25,531**
Equity-settled share-based transactions	**—**	**—**	**91,688**	**—**	**—**	**91,688**
Issuance and repurchase of Shares to the Company *(Note 11(b)(ii))*	**37,110**	**(37,110)**	**—**	**—**	**—**	**—**
Exercise of share option *(Note 11(b)(iii))*	**54,778**	**34,746**	**(55,467)**	**—**	**—**	**34,057**
Total change for the year	**659,094**	**(2,364)**	**36,221**	**25,531**	**200,712**	**919,194**
Balance at 31 December 2023	**1,302,751**	**(38,944)**	**731,244**	**22,995**	**75,388**	**2,093,434**

(b) Share capital

	2023		2022	
	No. of shares		No. of shares	
	('000)	***RMB'000***	*('000)*	*RMB'000*
Shares, issued and fully paid:				
At 1 January	**1,073,796**	**643,657**	1,037,500	571,769
Allotment of Shares *(Note 11(b)(i))*	**80,000**	**567,206**	—	—
Issuance and repurchase of Shares to the Company *(Note 11(b)(ii))*	**36,296**	**37,110**	36,296	36,581
Exercise of share option and RSUs *(Note 11(b)(iii))*	**—**	**54,778**	—	35,307
At 31 December	**1,190,092**	**1,302,751**	1,073,796	643,657

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

(i) 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 on 12 January 2023 as fully paid for cash at Hong Kong Dollars ("**HKD**" or "**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 and repurchase of Shares to the Company

The Company issued and repurchased 26,476,000 Shares at HKD0.6621 per share for exercise of pre-IPO share option scheme on 1 June 2023 (26,476,000 Shares at HKD0.6621 on 2 June 2022).

The Company issued and repurchased 9,819,900 Shares at HKD4.17 per share for exercise of RSU scheme on 23 November 2023 (9,819,900 Shares at HKD4.17 on 23 November 2022).

The cost of the treasury Shares which were repurchased for the purposes of equity settled share-based transactions is in the amount of RMB37,110,000 in 2023 (2022: RMB36,581,000).

(iii) Exercise of share option and RSU

The option to subscribe for an aggregate of 7,956,419 Shares, which grant date fair value is RMB2.29, were exercised in 2023 at the exercise price of RMB1,000. RMB18,226,000 was transferred from the capital reserve to the share capital account.

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.

9,327,555 RSUs were vested and exercised at the exercise price of RMB34,056,000 in 2023. RMB37,241,000 was transferred from the capital reserve to the share capital account.

No RSUs were vested and exercised in 2022.

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations.

(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.

(e) Dividends

The directors consider that no dividend was declared and approved during the years ended 31 December 2023 and 2022.

The total amount of dividends proposed after the end of the Reporting Period of HKD0.1 per ordinary share is HKD121,657,000. The final dividend proposed after the end of the Reporting Period has not been recognised as a liability at the end of the Reporting Period.

(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 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.

(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.

12 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 at 31 December 2023	**Fair value measurements as at 31 December 2023 categorised ratio**			**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
		Level 1	**Level 2**	**Level 3**			
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***			
Recurring fair value measurements							
Financial Assets							
Unlisted equity securities	**10,100**	**—**	**—**	**10,100**	**Backsolve from recent transaction price**	**Volatiltity Discount for lack of marketability**	**The higher the unobservable inputs, the higher the fair value**
Monetary fund	**59,149**	**—**	**59,149**	**—**	**Open market transaction price**	**N/A**	**N/A**

	Fair value at 31 December 2022	Fair value measurements as at 31 December 2022 categorised ratio			Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		Level 1	Level 2	Level 3			
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*			
Recurring fair value measurements							
Financial Assets							
Unlisted equity securities	10,000	—	—	10,000	Active market quoted transaction price	N/A	N/A
Monetary fund	253,748	—	253,748	—	Open market transaction price	N/A	N/A
Financial Liabilities							
Forward exchange contracts	(1,240)	—	(1,240)	—	Discounted cash flow — Future cash flows are estimated based on observable forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A

During the years ended 31 December 2023 and 2022, 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.

The fair value of monetary fund in Level 2 is the estimated amount that the Group would receive or pay to transfer the financial assets at the end of the Reporting Period, taking into account current interest rates which is derived from Agricultural 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 (2022: nil).

The fair value of the investment is determined by the backsolve method from recent transaction price as at 31 December 2023.

(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 2023 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT VISION

The Group is committed to providing downstream customers with core equipment, high value-added process solutions, integrated digital intelligent plant solutions (including process packages), and value added services covering the entire life cycle.

PERFORMANCE AND GROWTH IN PRINCIPAL FIELDS

The Group is principally engaged in the design, manufacture, installation, operation and maintenance services, 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 refinery, 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 2023. The growth of the Group's business is mainly attributable to the industries/fields of pharmaceutical and biopharmaceutical and chemicals. As at the end of the Reporting Period, the amount of new orders in these two industries/fields accounted for more than 50% of the total amount of the Group's new orders.

Downstream industry/field	The amount of new orders	Proportion	The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts	Proportion
	RMB'000		*RMB'000*	
Electronic chemicals	1,164,186	14.95%	1,882,434	20.74%
Chemicals	1,667,796	21.42%	2,067,658	22.78%
Family care*	226,904	2.91%	121,558	1.34%
Raw materials of power battery#	971,208	12.48%	1,184,502	13.05%
Oil and gas refinery	419,494	5.39%	409,722	4.51%
Pharmaceutical and biopharmaceutical	2,605,267	33.47%	2,723,593	30.00%
Others	730,001	9.38%	688,268	7.58%
Total	7,784,856	100.00%	9,077,735	100.00%

* 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.

\# Raw materials of power battery include mining and metallurgy industry.

During the Reporting Period, the Group maintained steady business growth by leveraging its technological advantages in traditional industries/fields including raw materials of power batteries, pharmaceutical and biopharmaceuticals, and electronic chemicals. Bolstered by its extensive experience in operating overseas projects, the Group achieved significant performances in the Southeast Asian and North American markets. In addition, the Group actively engaged in in-depth discussions with downstream customers regarding potential opportunities, forming significant collaborative intentions for projects at investment decision stage. This has laid a solid foundation for the expansion of new business in 2024.

During the Reporting Period, the Group's major business growth was driven by modular equipment, including highly integrated modular products (such as process systems and devices) and total modular solutions (such as modular plants), covering all major downstream fields of the Group.

During the Reporting Period, the Group achieved significant breakthroughs in the following fields and markets:

(1) Green energy (overseas total engineering solutions for the North American market);

(2) Sustainable food production (large-capacity bioreactors for the North American market);

(3) Raw materials of power batteries (total solutions + process packages for the North American market);

(4) New energy materials (core equipment + process packages for the South Asian market);

(5) High-end wet electronic chemicals (process solutions for the North American market).

Committed to ensuring high-quality and sustainable growth, the Group is constantly expanding its market scope, targeting new technologies and products across different downstream industries. It promptly initiates supportive research and development projects, positioning its research and development staff alongside clients, research institutions, and collaborating universities to expedite the application of new technologies and products. Through the synergistic approach of collaboration among the industry, colleges and research institutions, the Group is well-equipped to quickly meet the evolving needs for advanced applications in various downstream sectors, such as new biological vaccines, novel lithium battery materials, new food products, and alternative energy sources. The Group remains dedicated to its research and development models, working closely with leading downstream enterprises to support the adoption of new technology applications in the fields of green energy, health, and smart technologies.

During the Reporting Period, the Group encountered a downturn in demand within certain domestic downstream industries/fields it served, with overcapacity and reduced investments in specific industries. In response, the Group proactively expanded to overseas markets, leveraging its global network and resources, and outperformed expectations in its international business. Despite a slowdown in the acquisition of new orders, the ongoing recovery in overseas market demand bolstered the Group's confidence in the supply-demand balance for 2024 and its outlook for consistent growth. By diversifying its development and investment across various industries and markets, the Group has lessened its reliance on any single sector or client group, enabling it to pursue diversified and sustained growth across different industries, even in the face of overcapacity in a specific industry.

The signs of a global market recovery in the post-pandemic era are increasingly apparent. During the Reporting Period, the Group received numerous inquiries from overseas enterprises, with some projects progressing to critical stages such as business negotiations or contract finalization, setting the stage for new signed orders in 2024. From the second half of 2022 to the first half of 2023, the Group saw an increase in the percentage of high-quality, medium-to-long term orders compared to the previous periods. As a result, by the end of the Reporting Period, there was an increase in the amount of on-hand orders. The robust portfolio of orders, coupled with high value-added projects, positions the Group for continued profitability growth and ensures sustainable, high-quality growth in 2024.

PRINCIPAL SECTORS AND CORE PRODUCTS

Energy and materials

In the energy and materials sector, the Group continues its commitment to traditional industries including oil and gas refinery, petrochemicals, chemicals, and metallurgy. Concurrently, the Group is actively pursuing growth in various fields such as the green/low-carbon/sustainable energy and innovative new materials. The Group provides downstream customers with core equipment, process systems, and integrated engineering solutions.

Clean energy

During the Reporting Period, the Group entered into a contract with a leading international clean technology company for a modular biofuel plant project. Leveraging the company's advanced process technology and the Group's detailed design, a state-of-the-art biofuel additive production facility is scheduled for completion and delivery in 2024. The proprietary thermochemical process of the technology company is capable of converting carbon and hydrogen-rich non-recyclable waste and wood waste, previously destined for landfill or incineration, into environmentally friendly and efficient green energy and energy additive products, thus facilitating the circular use of organic waste. Once operational, the facility is expected to process approximately 200,000 tons of non-recyclable waste annually, yielding approximately 125 million liters of biofuel and renewable chemicals. Besides, the technology company is also preparing to launch new projects in Europe, North America, and the Asia-Pacific region, with its proprietary clean chemical technology directly addressing the current global concerns about carbon emissions, renewable chemicals, and energy. These industrial applications are set to empower the rapid achievement of carbon peaks and carbon neutrality.

During the Reporting Period, the Group delivered core equipment and modules for a biofuel project to a prominent international oil company. The Group was responsible for the process design and manufacturing of a biological desulfurization unit for this project, which included four modules, a tower, and interconnected pipelines. This unit is designed to convert waste materials such as vegetable oil, animal fats, waste cooking oil and other agricultural and industrial by-products into bio-gas and sustainable aviation fuel. By addressing the needs of downstream customers for innovations, the Group, in collaboration with all stakeholders, promotes the development of sustainable energy and makes positive contributions to the society and environment.

Raw materials of power battery

During the Reporting Period, the Group entered into a contract with a leading international precision chemical products company on power battery raw materials project, marking the Group's first foray into the international market with its lithium hexafluorophosphate technology. In response to the growing power battery market and evolving production technologies, the Group capitalized on its experience and advantages in continuous process design in the chemical industry, and developed a continuous production process for lithium hexafluorophosphate and lithium bis (fluorosulfonyl) imide, providing comprehensive services that include process technology + EPF (Engineering + Procurement + Fabrication) for modular construction. This process significantly increases the production scale of individual units and, by enhancing the reaction process and efficiently using process heat, greatly reduces production costs and energy consumption, thereby contributing to the technological advancement of the global power battery industry.

During the Reporting Period, the Group successfully delivered a ternary cathode material project in collaboration with a distinguished domestic new chemical materials company. This innovative collaboration in the lithium battery field, featuring equipment jointly developed by the Group and a major domestic chemical conglomerate, has promoted the application and development of new kiln technologies in the market, revitalizing the momentum of the lithium battery industry.

Oil and gas refinery

During the Reporting Period, the Group successfully fulfilled a modular construction order for a refinery expansion project for a prominent international petroleum engineering company. This project represents the largest refinery project order the Group has ever received from this client, including approximately 150 types of core equipment, approximately 100 modules, and engaging over 2,000 project personnel. The oil products produced by this state-of-the-art refinery developed by the Group meets international environmental standards, not only expanding the capacity of the refinery but also enhancing the quality of refined oil products, thereby contributing to a low-carbon future for the energy supply chain.

New chemical materials

During the Reporting Period, the Group entered into contract for the super-high-pressure core equipment of an Ethylene Acrylic Acid ("**EAA**") phase one plant project with a domestic new materials company, with a construction scale of approximately 40,000 tons/year. EAA, known for its excellent heat sealability and tear resistance, effectively isolates air and moisture and exhibits outstanding adhesive properties to metals, glass, and other materials. This makes it highly applicable in electric vehicle battery electrodes and separators, food and pharmaceutical packaging, photovoltaics, wires and cables, and steel coatings. The manufacturing of EAA presents significant challenges due to the need for high temperature and super-high pressure conditions during production, requiring operational pressures of up to several hundred megapascals, making its production conditions extremely stringent. Currently, only a few equipment manufacturers in Europe and America are capable to produce such equipment. Upon extensive technical discussions and feasibility studies during the early stage of the project, the Group and the client reached a consensus, overcoming the monopoly held by the European and American markets in the production of super-high-pressure equipment. This landmark achievement signifies a breakthrough in the manufacturing of super-high-pressure equipment in Asia, addressing the domestic shortage in EAA production and setting a precedent for domestic and even Asian super-high-pressure equipment manufacturers.

During the Reporting Period, the Group delivered a customized molten salt reaction system to a renowned domestic chemical company. The key components of this system, the first and second oxidation reactors for acrylic acid, serve as the core reactors for the production of acrylic acid products. Given their large size and complex structure, along with the reactors, the system also includes various complex ancillary equipment, posing unprecedented challenges for the project team in design, manufacturing, and inspection. Leveraging its robust proprietary technologies and research and development capabilities, the Group surmounted barriers in the European market, achieving a successful domestic substitution and showcasing its comprehensive strength as a provider of complete solution packages.

Life science

The Group primarily focuses on providing core equipment, process systems, and digital intelligence total engineering solutions to industries and sectors such as pharmaceuticals, biopharmaceuticals, fast-moving consumer goods, and cosmetics, and offers services that can cover the entire lifecycle including engineering consulting, design, validation consulting, engineering contracting, validation execution, and digital operations and maintenance.

Pharmaceuticals and biopharmaceuticals

During the Reporting Period, the Group saw a continued steady growth in orders and revenue from the pharmaceutical and biopharmaceutical sectors, primarily driven by demand from overseas markets and an increasing preference for core equipment and modular products among downstream customers. During the Reporting Period, the Group made significant achievements in the following projects:

(1) The Group completed the delivery of the world's largest fermentation tank system for injectable-grade recombinant human albumin, enhancing the original system with an addition of four 100,000-liter fermentation and corresponding purification production lines. This system will support the client in building a production base for recombinant human albumin raw materials and formulations, catering to global market demands. Upon reaching full production capacity, it is expected to produce approximately 100 tons of recombinant human albumin annually.

(2) The Group completed the delivery of a modular pharmaceutical plant project for a renowned international pharmaceutical company. The project, comprising nearly a hundred modules that integrate diverse process systems, represents the first facility in the nation where the client locates for mixed production and bottling of monoclonal antibodies and small molecule proteins, covering a total floor area of approximately 5,000 square meters. The Group provided a comprehensive digital intelligent total plant solution, offering one-stop services including design, procurement, manufacturing, factory acceptance testing, and packaging and shipping.

(3) The Group successfully delivered an expansion project for a domestic innovative pharmaceutical company. The project incorporated both upstream monoclonal antibody bulk production lines for mammalian cell culture and downstream complementary production process systems along with a Supervisory Control and Data Acquisition ("**SCADA**") system, which has shortened the project timeline while accelerating the launch of the client's new production line.

Environmental protection

During the Reporting Period, the Group successfully delivered a plastic recycling project for a renowned international client. This project employed chemical recycling techniques to address the challenges associated with Polyethylene Terephthalate ("**PET**") regeneration technology, enabling the continuous conversion of PET waste into high-purity, food-grade PET raw materials. It significantly improves impurity removal and enhances the recycling rate of discarded PET. By integrating environmental sustainability with cutting-edge process technology, this project plays a crucial role in supporting the green, low-carbon, and high-quality development of the client, contributing to global economic growth and enhancing the living environment.

Electronic chemicals

During the Reporting Period, the Group accomplished the shipment of an ultra-large-scale high-purity sulfuric acid module intended for integrated circuit production for a well-known international fine chemical company. This project, the first of its kind to be dispatched from the Group's manufacturing base in the Federation of Malaysia ("**Malaysia**"), marking a significant advancement in the Group's capacity for overseas production. Looking forward, the Group will further strengthen its service offerings in design, construction, delivery, and maintenance, aiming to fulfill the needs of downstream customers for core equipment and modularized solutions.

CONSTRUCTION OF PRODUCTION CAPACITY

Malaysia manufacturing base

In November 2023, Morimatsu Dialog (Malaysia) Sdn. Bhd. ("**Morimatsu Dialog**"), a subsidiary of the Group, held a groundbreaking ceremony for an expansion project in the Pengerang region. The plant expansion project, with an investment of approximately US$60 million, is primarily designed for the production of materials and modules for raw materials of electric vehicles, semiconductors, and green energy, offering downstream customers with one-stop system solutions and value-added services. With an area of nearly 20,000 square meters, the expansion project mainly features a module production workshop equipped with modern office facilities and infrastructures well as a complex building. Scheduled for phased completion and delivery by the first quarter of 2025, the project is set to not only support Morimatsu Dialog in catering to the demand and opportunities within the region and overseas markets but also enhance local employment, attract high-quality and value-added investments, and boost the growth of economic income and the synergistic development of related industrial chains in the Pengerang region.

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) located in Changshu, Suzhou City, Jiangsu Province has been fully completed for delivery and ready to operation in the fourth quarter of 2023. With an area of approximately 130,000 square meters, it is mainly used to provide high-end 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. Considering the current market supply and demand as well as the Group's orders on-hand, it is expected that the production capacity of Changshu manufacturing base will be fully utilized.

REVIEW OF FINANCIAL DATA

Revenue

The Group's revenue increased by approximately 13.5% from approximately RMB6,486,277,000 for the year ended 31 December 2022 to approximately RMB7,360,262,000 for the year ended 31 December 2023. Such increase was mainly attributable to revenue generated from the oil and gas refinery industry, among which a large-value order was delivered and all revenue was recognized during the year.

	As of 31 December					Year-on-year
	2023		2022		Increase	change
Revenue by end application	***RMB'000***	***Proportion***	*RMB'000*	*Proportion*	*RMB'000*	
Electronic chemical	**773,299**	**10.5%**	879,357	13.6%	-106,058	-12.1%
Chemical	**1,702,131**	**23.1%**	1,563,376	24.1%	138,755	8.9%
Family care*	**372,720**	**5.1%**	403,258	6.2%	-30,538	-7.6%
Raw materials of power battery#	**1,144,442**	**15.5%**	995,435	15.3%	149,007	15.0%
Oil and gas refinery	**971,601**	**13.2%**	161,158	2.5%	810,443	502.9%
Pharmaceutical and biopharmaceutical	**2,228,092**	**30.3%**	2,154,425	33.2%	73,667	3.4%
Others	**167,977**	**2.3%**	329,268	5.1%	-161,291	-49.0%
Total	**7,360,262**	**100.0%**	6,486,277	100.0%	873,985	13.5%

* 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.

\# Raw materials of power battery include mining and metallurgy industry.

Cost of sales

The cost of sales of the Group increased by approximately 13.0% from approximately RMB4,692,891,000 for the year ended 31 December 2022 to approximately RMB5,304,558,000 for the year ended 31 December 2023. The increase in cost of sales was basically in line with the increase in revenue.

	As of 31 December					Year-on-year
	2023		2022		Increase	change
Cost of Sales	***RMB'000***	***Proportion***	*RMB'000*	*Proportion*	*RMB'000*	
Raw materials and consumables	**3,258,789**	**61.4%**	3,189,837	68.0%	68,952	2.2%
Direct labour costs	**549,798**	**10.4%**	474,977	10.1%	74,821	15.8%
Outsourcing fees	**645,698**	**12.2%**	401,528	8.6%	244,170	60.8%
Installation and repair cost	**531,141**	**10.0%**	370,342	7.9%	160,799	43.4%
Depreciation	**98,259**	**1.9%**	61,968	1.3%	36,291	58.6%
Impairment losses on assets	**743**	**0.0%**	-1,131	0.0%	1,874	-165.7%
Others (indirect labour cost + design fees)	**220,130**	**4.1%**	195,370	4.1%	24,760	12.7%
Total	**5,304,558**	**100.0%**	4,692,891	100.0%	611,667	13.0%

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 14.6% from approximately RMB1,793,386,000 for the year ended 31 December 2022 to approximately RMB2,055,704,000 for the year ended 31 December 2023. The growth in gross profit was slightly higher than the growth in revenue, which was mainly attributable to the improvement in overall operating efficiency of the Group. For the year ended 31 December 2023, the gross profit margin of the Group was approximately 27.9%, which remained basically stable compared to the year ended 31 December 2022.

	As of 31 December					Year-on-year
	2023		2022		Increase	change
Gross profit by end application	***RMB'000***	***Gross profit margin***	*RMB'000*	*Gross profit margin*	*RMB'000*	
Electronic chemical	**167,900**	**21.7%**	192,036	21.8%	-24,136	-12.6%
Chemical	**407,950**	**24.0%**	344,307	22.0%	63,643	18.5%
Family care*	**89,441**	**24.0%**	151,987	37.7%	-62,546	-41.2%
Raw materials of power battery#	**478,402**	**41.8%**	299,111	30.0%	179,291	59.9%
Oil and gas refinery	**216,217**	**22.3%**	41,631	25.8%	174,586	419.4%
Pharmaceutical and biopharmaceutical	**628,997**	**28.2%**	677,222	31.4%	-48,225	-7.1%
Others	**66,797**	**39.8%**	87,092	26.5%	-20,295	-23.3%
Total	**2,055,704**	**27.9%**	1,793,386	27.6%	262,318	14.6%

* 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.

\# Raw materials of power battery include mining and metallurgy industry.

Electronic chemical

The gross profit of the electronic chemical industry of the Group decreased by approximately RMB24,136,000, from approximately RMB192,036,000 for the year ended 31 December 2022 to approximately RMB167,900,000 for the year ended 31 December 2023; the gross profit margin remained basically stable compared to the year ended 31 December 2022.

Chemical

The gross profit of the chemical industry of the Group increased by approximately RMB63,643,000 from approximately RMB344,307,000 for the year ended 31 December 2022 to approximately RMB407,950,000 for the year ended 31 December 2023; the gross profit margin increased from approximately 22.0% for the year ended 31 December 2022 to approximately 24.0% for the year ended 31 December 2023. The increase in gross profit margin was mainly due to the fact that the Group undertook core equipment orders from certain major customers, and the Group maintained bargaining advantage during contract negotiations by leveraging its leading position in various technologies in the industry.

Family care

The gross profit of the family care industry of the Group decreased by approximately RMB62,546,000 from approximately RMB151,987,000 for the year ended 31 December 2022 to approximately RMB89,441,000 for the year ended 31 December 2023; the gross profit margin decreased from approximately 37.7% for the year ended 31 December 2022 to approximately 24.0% for the year ended 31 December 2023. The decrease in gross profit margin was mainly due to the increase in project costs as a result of the complex onsite conditions of certain research and development and renovation projects of the Group and additional validation work required for ensuring the stable operations of equipment.

Raw materials of power battery

The gross profit of the raw materials of power battery field of the Group increased by approximately RMB179,291,000, from approximately RMB299,111,000 for the year ended 31 December 2022 to approximately RMB478,402,000 for the year ended 31 December 2023; the gross profit margin increased from approximately 30.0% for the year ended 31 December 2022 to approximately 41.8% for the year ended 31 December 2023. The increase in gross profit margin was mainly due to the fact that the Group improved the designs and refined the solutions of projects in progress, which shortened the production cycles of certain projects, thus reducing the operational costs while ensuring the delivery of high-quality products.

Oil and gas refinery

The gross profit of the oil and gas refinery industry of the Group increased by approximately RMB174,586,000, from approximately RMB41,631,000 for the year ended 31 December 2022 to approximately RMB216,217,000 for the year ended 31 December 2023; the gross profit margin decreased from approximately 25.8% for the year ended 31 December 2022 to approximately 22.3% for the year ended 31 December 2023. The decrease in gross profit margin was mainly due to the fact that the closing gross profit was slightly lower than the expected gross profit for the first time when the Group cooperated with a customer to undertake a long-cycle modular engineering project of very large scale.

Pharmaceutical and biopharmaceutical

The gross profit of the pharmaceutical and biopharmaceutical industry of the Group decreased by approximately RMB48,225,000, from approximately RMB677,222,000 for the year ended 31 December 2022 to approximately RMB628,997,000 for the year ended 31 December 2023; the gross profit margin decreased from approximately 31.4% for the year ended 31 December 2022 to approximately 28.2% for the year ended 31 December 2023. The decrease in gross profit margin was mainly due to the increase in the number of long-cycle large-value orders, and the project cycle was longer than expected.

Other income/(loss)

Other income of the Group primarily consists of government grants, interest income and foreign exchange gains and losses. The Group recorded other income of approximately RMB85,462,000 for the year ended 31 December 2023, while it recorded other loss of approximately RMB701,000 for the year ended 31 December 2022. Such increase was mainly due to (1) the increase in interest income as a result of the higher interest rates of the U.S. dollar and Hong Kong dollar time deposits held by the Group; and (2) increase in government grants as the Chinese government promulgated policy, allowing advanced manufacturing enterprises to deduct an additional 5% from their deductible value added tax with effective from 1 January 2023 to 31 December 2027.

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. The selling and marketing expenses of the Group decreased by approximately 5.0% from approximately RMB184,460,000 for the year ended 31 December 2022 to approximately RMB175,228,000 for the year ended 31 December 2023, mainly due to the significant decrease in sales commission paid to third parties following the completion of projects with high commission fees. The decrease was partially offset by the increase in (1) salary and travelling expenses of personnel due to the expansion of business scale; and (2) promotion and pre-sales service expenses for exploring overseas market. For the year ended 31 December 2023, the selling and marketing expenses accounted for approximately 2.4% of the Group's total revenue (same period in 2022: 2.8%).

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. The general and administrative expenses of the Group increased by approximately 6.4% from approximately RMB510,448,000 for the year ended 31 December 2022 to approximately RMB543,143,000 for the year ended 31 December 2023, mainly due to the increases in the salaries and benefits of management and administrative staff, travel expenses, consulting fees and office expenses as a result of the continuous expansion of the Group's business scale. The increase was partially offset by the decrease in share-based payment expenses. The percentage of general and administrative expenses accounted for approximately 7.4% of the Group's total revenue for the year ended 31 December 2023 (same period in 2022: 7.9%).

Research and development expenses

The Group's research and development expenses increased by approximately 32.3% from approximately RMB316,084,000 for the year ended 31 December 2022 to approximately RMB418,149,000 for the year ended 31 December 2023, 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. The research and development expenses accounted for approximately 5.7% of the Group's total revenue for the year ended 31 December 2023 (same period in 2022: 4.9%).

Finance costs

The Group's finance costs primarily consist of the interest on lease liabilities and interest on bank borrowings. The Group's finance costs decreased by approximately 16.7% from approximately RMB15,951,000 for the year ended 31 December 2022 to approximately RMB13,291,000 for the year ended 31 December 2023, mainly due to the decrease in interest expenses incurred on the bank borrowings denominated in RMB.

Income tax expenses

The Group's income tax expenses increased by approximately 49.7% from approximately RMB94,735,000 for the year ended 31 December 2022 to approximately RMB141,786,000 for the year ended 31 December 2023. The Group derived its profit mainly from two subsidiaries located in China, which enjoy a preferential enterprise income tax rate of 15%. For the year ended 31 December 2023, the Group's effective income tax rate was approximately 14.4%, representing an increase of approximately 1.9% from approximately 12.5% for the year ended 31 December 2022, mainly attributable to the withholding deferred income tax expenses as the Company expected to receive dividend from a PRC company.

Net profit and net profit margin

Based on the above factors, the Group recorded a net profit of approximately RMB842,548,000 for the year ended 31 December 2023, representing an increase of approximately 26.5% from approximately RMB666,182,000 for the year ended 31 December 2022; the Group's net profit margin was approximately 11.4%, representing an increase of approximately 1.1% from approximately 10.3% for the year ended 31 December 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 and 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

For the year ended 31 December 2023, the Group recorded an EBITDA of approximately RMB1,143,066,000, representing an increase of approximately 28.3% from approximately RMB890,682,000 for the year ended 31 December 2022.

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Net profit	**842,548**	666,182
Add: Income tax expenses	**141,786**	94,735
Interest expenses	**13,291**	15,951
Depreciation	**128,074**	98,443
Amortization	**17,367**	15,371
EBITDA	**1,143,066**	890,682

Property, plant and equipment

The property, plant and equipment of the Group increased by approximately 30.8%, from approximately RMB1,609,565,000 as at 31 December 2022 to approximately RMB2,105,463,000 as at 31 December 2023, mainly due to the increase of the Group's investment in the construction of the manufacturing base in Suzhou.

Trade and other receivables

The Group's trade and other receivables increased by approximately 28.6%, from approximately RMB1,165,785,000 as at 31 December 2022 to approximately RMB1,499,372,000 as at 31 December 2023, mainly due to the increase in trade receivables as a result of the increase in revenue of the Group.

Inventories

The Group's inventories decreased by approximately 18.7%, from approximately RMB2,213,728,000 as at 31 December 2022 to approximately RMB1,800,466,000 as at 31 December 2023, mainly due to the fact that the Group had not conducted centralized procurement of materials yet as certain large-value orders were still under preliminary design stage.

Contract liabilities

The Group's contract liabilities decreased by approximately 20.8%, from approximately RMB2,890,048,000 as at 31 December 2022 to approximately RMB2,290,334,000 as at 31 December 2023, mainly due to (1) the recognition of revenue from certain large-value orders entered into during 2022; and (2) the payment for new orders entered into during 2023 not yet due.

Borrowings and gearing ratio

The total borrowings of the Group decreased by approximately 17.8% from approximately RMB444,233,000 as at 31 December 2022 to approximately RMB365,083,000 as at 31 December 2023, mainly due to the fact that the Group had sufficient liquidity and repaid certain bank borrowings denominated in RMB. The decrease was partially offset by the increase in borrowings for the construction of Changshu manufacturing base in Suzhou.

As at 31 December 2023, the borrowings of the Group bore interest at a rate between 3.63% to 7.25%, of which fixed-rate borrowings amounted to approximately RMB100,428,000 and variable-rate borrowings amounted to approximately RMB264,655,000. RMB denominated borrowings amounted to approximately RMB280,187,000, of which approximately RMB100,628,000 will be due within 1 year, and approximately RMB179,559,000 will be due after 1 year but within 5 years; and HKD denominated borrowings amounted to approximately RMB84,896,000, which will be due within 1 year.

Gearing ratio is calculated by dividing interest-bearing borrowings by total equity. The Group's gearing ratio decreased from approximately 15.7% as at 31 December 2022 to approximately 8.3% as at 31 December 2023, mainly due to the decrease in the balance of borrowings, increase in equity and the increase in reserves as a result of the earnings.

Liquidity and capital resources

As at 31 December 2023, the balance of cash and cash equivalents of the Group was approximately RMB2,168,682,000, representing an increase of approximately RMB798,323,000 from approximately RMB1,370,359,000 as at 31 December 2022. 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 RMB59,149,000 as at 31 December 2023, representing a decrease of approximately RMB194,599,000 from 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 placement and issue of equity securities/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 2023, the Group had total bank facilities of RMB2,455,000,000, United States dollars ("**USD**") 165,000,000, Swedish Krona 300,000,000, HK$93,000,000 and Japanese Yen ("**JPY**") 17,100,000,000 (aggregately equivalent to RMB4,779,864,000), of which, used bank facilities were approximately RMB861,921,000, USD91,507,000, Euro 4,210,000, HK$93,000,000 and JPY82,000,000 (aggregately equivalent to approximately RMB1,631,518,000), and unused bank facilities were equivalent to RMB3,148,346,000.

Contingent liabilities and guarantees

As at 31 December 2023, the Group did not have any material contingent liabilities or guarantees.

Significant investments, acquisitions and disposals

On 16 January 2023, the Company established a new wholly-owned subsidiary, Pharmadule Singapore, which is primarily engaged in providing technical and service support for the Group's business expansion in Southeast Asia. As at 31 December 2023, the registered capital of Pharmadule Singapore was S$3,000,000.

During the Reporting Period, the Group completed several capital contributions to Morimatsu Dialog of RM38,403,000. After the increase of the registered capital, the share capital of Morimatsu Dialog was RM89,300,000.

On 30 May 2023, Morimatsu Heavy Industries, a subsidiary of the Company, 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. The capital contribution of the partnership was RMB20.2 million, in which the Company indirectly accounted for 24.75%.

During the Reporting Period, pursuant to an investment agreement, Morimatsu Pharmaceutical Equipment, a subsidiary of the Company, completed several capital contributions of RMB40 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).

On 3 August 2023, the Company set up 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) ("**MHN**"), which is principally engaged in the development and sales of high-purity chemical reagent production technology and equipment. The registered capital of MHN is RMB10 million, and the Company holds 88% shares indirectly.

On 17 October 2023, the Company established a new wholly-owned subsidiary, Morimatsu Singapore. The registered capital of Morimatsu Singapore is S$4,000,000, and it is primarily engaged in providing technical and service support for the expansion of the Group's energy and materials business unit in Southeast Asia.

On 2 November 2023, MHN established a new subsidiary, Shanghai Morimatsu Semi-Chem Equipment Co., Ltd. (上海森美科半導體設備有限公司), which is primarily engaged in the manufacturing and sales of special equipment for semiconductors. The registered capital of the company is RMB10 million, and MHN holds 55% shares directly.

On 1 December 2023, Morimatsu Singapore, a subsidiary of the Company, entered into a share transfer agreement with a third party, pursuant to which, Morimatsu Singapore agreed to acquire all the shares of Morimatsu T&S. The registered capital of Morimatsu T&S is JPY100,000,000, which is primarily engaged in providing technical and service support for the Group's energy and materials business.

On 22 December 2023, the Company established a new wholly-owned subsidiary, Lifesciences Singapore. The registered capital of Lifesciences Singapore is S$300,000, which is primarily engaged in providing technical and service support for the overseas expansion of Group's life science business unit.

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

Pursuant to the supplemental agreement to the joint venture agreement dated 1 January 2024, the two investors of Morimatsu Dialog amended the terms of the joint venture agreement dated 27 August 2021. Since 1 January 2024, the Company has directly retained 51% of the shares and has obtained control of the joint venture to enhance synergies in the management of the Group, while the other investor has only retained a protective right.

On 27 and 28 February 2024, Morimatsu Engineering Technology, a subsidiary of the Company, entered into equity transfer agreements with three independent third parties, pursuant to which, Morimatsu Engineering Technology agreed to acquire Shandong Keda Chemical Engineering Design Co., Ltd. (山東科達化工工程有限公司) (the "**Target Company**"). Upon the completion of the registration of change for the equity transfer of the Target Company by both parties, Morimatsu Engineering Technology will hold 100% of the shares in the Target Company.

On 16 January 2024, Morimatsu T&S subscribed for 140,056 preference shares of 3DC Inc., a Japanese company, with a total subscription amount of JPY49,999,992. Upon the completion of share subscription, Morimatsu T&S holds 2.82% shares in 3DC Inc.

On 25 March 2024, the Company established a new wholly-owned subsidiary, Morimatsu International Investment Company Limited ("**MII**"). The registered capital of MII is HKD10,000, which is primarily engaged in investment holdings.

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

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group had a total of approximately 4,500 employees, among which over 650 are research and development personnel, accounting for more than 14% 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. Specific information will be available in the annual report of the Company for the Reporting Period.

DIVIDENDS

The Board recommends the payment of final dividend of HKD0.1 per Share for the year ended 31 December 2023. Subject to (i) the approval by the Shareholders at the forthcoming Annual General Meeting ("**AGM**") to be held on Tuesday, 18 June 2024, and (ii) the fact that the Directors are satisfied that there are no reasonable grounds for believing that the Company is, immediately following the final dividend are paid, unable to pay its debts as they fall due in the ordinary course of business, the abovementioned final dividend will be paid on Friday, 19 July 2024, to those Shareholders whose names appeared on the Register of Members of the Company on Monday, 8 July 2024.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Tuesday, 18 June 2024. 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 Thursday, 13 June 2024 to Tuesday, 18 June 2024, 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, 12 June 2024.

For determining the Shareholder's entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 5 July 2024 to Monday, 8 July 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to the proposed final dividend, all completed 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 Thursday, 4 July 2024.

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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. During the Reporting Period, the Company has complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Listing Rules and there has been no deviation from the code provisions of the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiry to all Directors, they have confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

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

AUDITOR

The Company has engaged KPMG as its auditor for the Reporting Period. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming AGM.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

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

Hong Kong, 28 March 2024

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.