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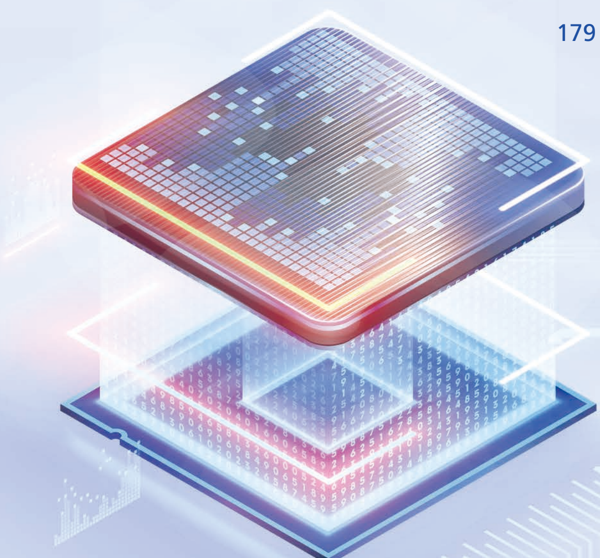
Morimatsu International Holdings Company Limited
森松國際控股有限公司

(Incorporated in Hong Kong with limited liability)

Stock code : 2155

2021
Annual Report

Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

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

REGISTERED OFFICE

Unit 26B
235 Wing Lok Street Trade Centre
235 Wing Lok Street
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 29 Jinwen Road
Zhuqiao Town
Pudong New District
Shanghai
PRC

COMPANY'S WEBSITE ADDRESS

www.morimatsu-online.com

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap
Ms. Lau Wai Yee

AUTHORISED REPRESENTATIVES

Mr. Nishimatsu Koei
Ms. Lau Wai Yee

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPLIANCE ADVISER

Sinolink Securities (Hong Kong) Company Limited
Units 2503, 2505–06, 25/F
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China Shanghai Zhangqiao Branch
2/F, 600 Jialin Road
Pudong New District
Shanghai
PRC

Mizuho Bank (China) Limited
21/F, Shanghai World Financial Centre
100 Century Avenue
Pudong New District
Shanghai
PRC

Sumitomo Mitsui Banking Corporation (China) Limited
11/F, Shanghai World Financial Centre
100 Century Avenue
Pudong New District
Shanghai
PRC

LEGAL ADVISER AS TO HONG KONG LAW

Jingtian & Gongcheng LLP
Suites 3203–3207, 32/F
Edinburgh Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

LEGAL ADVISER AS TO PRC LAW

Jingtian & Gongcheng Shanghai Branch
45/F, K. Wah Centre
1010 Huaihai Road (M)
Xuhui District
Shanghai
PRC

AUDITOR

KPMG
Public Interest Entity Auditor
registered in accordance with the
Financial Reporting Council Ordinance
8/F, Prince's Building
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Central
Hong Kong

STOCK CODE

2155

Chief Executive Officer's Statement

2021 was the listing year of the Company. Looking back on the development of the Group in Japan, China and the rest of the world over the past 30 years, the Group and its employees will be deeply impressed by the progress of the era, corporate changes and personal development they have witnessed and experienced.

The Company is committed to becoming the world's leading provider of core equipment, process systems and digitalised engineering solutions. As the consequence of restructuring of industrial chain, the shift in value chain of manufacturing industry and the wave of digital technology in parallel with the globalisation trend of economy, the Group, while moving forward, maintains continuous innovation as the internal driving force for its continuing operation, focusing on meeting the value needs of customers as the top priority of the Group's operation, maintaining talent cultivation as the largest investment for its development, and upholding the principal philosophy of combining software and hardware for the Group's research and development and market expansion.

Having started from the simple manufacturing of a single product, after 30 years of development, the Group has become a long-standing strategic partner of many leading enterprises of various industries. The Group's high-tech products and high value-added services continue to empower downstream enterprises from different sectors and in different countries and regions to achieve better value, and provide optimised new materials and pharmaceutical for communities, thereby providing unlimited possibilities for a better life.

On 28 June 2021, the Company was successfully listed on the Main Board of the Stock Exchange, which was a milestone signifying the Company's steely determination in pursuit of desirable future and strengthening itself. With resources from the capital market, the Company will present each investor with more diversified growth prospects and various possible development opportunities.

OPERATING PERFORMANCE

The intrinsic value of the Group lies in innovation, which is based on the accurate judgement and in-depth knowledge of the development trends and value demands of downstream industries. 2021 was the second year of the global economic hit by the coronavirus disease 2019 ("**COVID-19**") pandemic. Faced with the continuing slowdown in investments of the downstream industries, the Group has continued to achieve remarkable results by pursuing a diversified business strategy that takes into account both domestic and overseas factors, opening up new subfields in different sectors.

During the Reporting Period, the Group's financial performance was encouraging, with revenue, gross profit, net profit, the number and amount of new orders and the orders on hand hitting record highs. The revenue amounted to approximately RMB4,279 million, representing a year-on-year increase of approximately 43.7%; gross profit amounted to approximately RMB1,176 million, representing a year-on-year increase of approximately 39.4%; net profit amounted to approximately RMB381 million, representing a year-on-year increase of approximately 31.5%; the amount of new orders amounted to approximately RMB6,654 million, representing a year-on-year increase of approximately 88.7%; the orders on hand amounted to approximately RMB5,720 million, representing a year-on-year increase of approximately 72.5%.

MARKET, PRODUCTS AND SERVICES

By persistent efforts on continuous innovation in products and services, the Group has the technical capability and hardware reserves that are comprehensive to serve different downstream industries, ensuring the sustainability of growth by shifting its business focus to serve popular industries in times of cyclical fluctuations in a single industry. The Group's development can also be embedded in the development cycles of different industries, which means that it can not only eliminate its dependence on a single industry, but also avoid the cyclical shock from a single industry. The overlap of cycles brought about by the combination of multiple downstream industries promotes sustainable growth of the Group's business and rapid development in diversified markets.

At the same time, the Group and downstream enterprises from different sectors have carried out in-depth cooperation. With the new downstream products and new technology as the core strength of its own research and development, the Group has integrated its research and development work into the research and development process of customers, and attached its research and development direction to the technical development trend of downstream industries, with an aim to establish close ties between the research and development teams of the Group and customers.

Today, the Group's brand has been widely recognized in the international market, while the Group's products have been installed and deployed in more than 100 countries and regions. The Group is well known as a provider for complex process equipment and integrated engineering solutions and has maintained long-term and in-depth cooperation with leading companies in the fields of biopharmaceuticals, raw materials of power batteries, new chemical materials and electronic chemicals, providing joint research and development, technical consultation, front-end design, core reaction equipment, complete sets of equipment (e.g. process modules), comprehensive solutions (e.g. modular plants) and follow-up operation and maintenance services (e.g. digital operation and maintenance platform products) to these companies.

CORPORATE COMPETITIVENESS AND CONTINUOUS TECHNOLOGY INNOVATION

Since the Industrial Revolution, various new synthetic materials have emerged to meet the aspirations and pursuits of human society for a better life, and play an irreplaceable role in extending human life, promoting human health, and improving people's quality of life. Compared with natural resources such as metal minerals, silk fabrics, natural rubber and fossil fuels, which are scarce and cannot be reproduced, new materials synthesized by modern science and technology can effectively replace natural resources and be used in all aspects of human civilization's development. The Group's products and services can empower and help the material synthesis industry by improving reaction performance, increasing reaction capacity, optimizing reaction routes, hence achieving continuous technological evolution and product updates.

The core competitiveness of the Group is derived from the harnessing and application of chemical technology and biological technology in different fields, which is manifested as the engineering application of chemical, polymerisation and biological reactions in different downstream industries. The products include various types of individual equipment, complete sets of equipment and total solutions that can generate chemical and biological response, optimize response effect and realize industrial production. The application sectors/industries of the products includes pharmaceutical and biopharmaceutical, raw materials of power battery, chemical, electronic chemicals, oil and gas and daily chemical.

During the Reporting Period, the Group's main business came from the following sectors/industries: 1) pharmaceuticals and biopharmaceuticals; 2) raw materials of power batteries; 3) new chemical materials; and 4) electronic chemicals. The strongest growth drivers come from new application scenarios of synthetic technologies in biology and chemistry in the new era, such as Messenger Ribonucleic Acid ("**mRNA**") technology, antibody production, recombinant human albumin, novel insulin synthesis, degradable plastics, environmentally friendly coatings, high performance polymeric materials, high performance engineering plastics, chemical vapor deposition, high pressure acid leaching, etc. These technologies are widely used in various fields such as biopharmaceutical production, lithium battery raw material preparation, novel chemical material production.

WHOLE LIFE-CYCLE COVERAGE FOR DIGITAL PROJECTS

The Group has fully integrated the concept of digitization and intelligence into its products and services, eliminating its reliance on hardware and sites in contrast to traditional manufacturing industries. Being the first in the industry to propose the concept of "whole life-cycle coverage for projects", from joint research and development and front-end design to engineering design, core equipment manufacturing, whole project delivery, on-site commissioning and lastly to the operation and maintenance of equipment after starting production, the Group digitizes each element through its digital platform, and provides customers with one-stop solutions for digital delivery of large industrial projects by utilizing the cloud technology, the visual digital information management interface, the digital operation and maintenance platform and data packages.

Based on its understanding of process industries and experience in the design, manufacturing and operation and maintenance of biochemical reactors gained over its long history of operation, the Group has also launched operation and maintenance software products through independent research and development to address specific needs of targeted customers, providing them with a digital operation and management platform. Such products help customers to optimize management interfaces, maximize economic of scales of equipment and minimize operational risks of plants in terms of production efficiency, equipment management, energy consumption optimization and continuous improvement in process, laying the foundation for customers to realize parallel production and digital twin plants.

CAPACITY EXPANSION

During the Reporting Period, the Group rationalized its production capacity deployment based on the needs of its strategic development, among which the expansion project of the Nantong production base has been delivered in succession since December 2021. The delivery of three heavy-duty assembly workshops and an advanced machine processing center with a total area of approximately 50,000 sq.m. and a gross floor area of approximately 40,000 sq.m. is expected to be completed in June 2022. In mid-2021, the Group signed a land agreement with the Administrative Committee of Changshu Economic and Technological Development Zone for the construction of a production base for the production of clean grade products, with a total investment of approximately USD180 million and a site area of approximately 130,000 sq.m. in phase I. The construction of the project will commence in May 2022 as planned.

DEPLOYING OVERSEAS RESOURCES AND TARGETING AT GLOBAL MARKETS

During the Reporting Period, for the purpose of attracting top professionals within the industry and establishing a pool of the latest industry technologies to provide front-end services and after-sales support to European customers, the Group established Morimatsu Italy S.r.l., a subsidiary in Milan, Italy principally engaged in the provision of services to the pharmaceutical and biopharmaceutical industries. Moreover, in order to extend the geographical coverage of products and services to wider overseas markets, the Group invested and established Morimatsu Dialog (Malaysia) Sdn. Bhd., a joint venture jointly with Dialog Fabricators Sdn Bhd, a subsidiary of a Malaysian-listed company, which will be served as the Group's overseas production base and provide products and services including core equipment, complete equipment and modular solutions.

During the Reporting Period, the number of employees of the Group reached 3,211, including over 400 research and development employees. The total number of engineering technology staff and technical management staff exceeds 1,600. The Group has subsidiaries in Sweden, Japan, Italy, the United States and India, of which the subsidiaries in Stockholm, Sweden, Yokohama, Japan and Milan, Italy are mainly engaged in front-end design, research and development of new products and new technology and consulting services. The subsidiary of Mumbai is mainly engaged in the detailed project planning work of engineering projects, while subsidiaries in other countries and regions make full use of their teams and resources to provide customer services, project support and post-sale services.

CORPORATE RESPONSIBILITY

Since the global outbreak of COVID-19 pandemic, the Group has set up a leading group for the fight against the pandemic promptly to ensure the smooth daily operation of the Group. At the same time, the Group has fully coordinated resources from all aspects in terms of project management, supply chain security, talent recruitment and global layout to minimize the impact of the pandemic. Meanwhile, the Group has provided anti-pandemic materials to overseas and domestic organizations, customers and partners through various channels.

Looking back, the energy structure of the global economy has been gradually shifted with a structural transformation from a high dependence on oil and gas to a new energy mix of low-emission and low-pollution. China's dual carbon commitment has also contributed to the rapid development of related industries including emerging energy. New energy vehicles, green homes, innovative medicines, post-pandemic life and other development themes drive the Group's downstream industries to pursue continuous innovation to promote a better life for human society with a focus on environmental protection and health, empowering global industries to achieve green and sustainable development. The Group will also uphold the spirit of innovation, integrate with the research and development of new technologies and products in downstream industries, effectively utilize and scientifically develop global production capacity, and join hands with investors, customers, partners and employees to create a better future for the world.

Finally, I would like to take this opportunity to thank all Shareholders for their support and care in the past year, and to express my sincere gratitude to the Directors, management and all employees for their dedication and efforts, and to express my congratulations to the Group for its outstanding achievements and results.

Nishimatsu Koei
Chief executive officer

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Nishimatsu Koei (西松江英), aged 57, is an executive Director. Mr. Nishimatsu is also our chief executive officer responsible for overseeing general management and daily operation of our Group. Mr. Nishimatsu also holds directorship in Morimatsu China, Morimatsu Pharmaceutical Equipment and Morimatsu Heavy Industry.

Mr. Nishimatsu has around 31 years of experience in pressure equipment industry. From April 1991 to November 2012, Mr. Nishimatsu served at Morimatsu Industry. He joined Morimatsu Industry as an officer of design department (設計部) and was promoted as the executive officer and the head of the overseas department (海外事業部) of Morimatsu Industry and was responsible for supervising the business expansion of Morimatsu Pressure Vessel in the PRC market. From 24 March 2017 to 26 March 2021, Mr. Nishimatsu was a director of Morimatsu Industry but he did not participate in its day-to-day operations. From January 1998 to December 2009, Mr. Nishimatsu served at Morimatsu Pressure Vessel. He joined Morimatsu Pressure Vessel as an officer and was subsequently promoted as the general manager of Morimatsu Pressure Vessel and was responsible for general operation and management of client relationship maintenance. From January 2008 to December 2010, he served as the general manager of Morimatsu Chemical Equipment and was responsible for overseeing its production operations. Since October 2010, Mr. Nishimatsu has served as the general manager of Morimatsu China and is responsible for its daily management operations.

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

Mr. Hirazawa Jungo (平澤準悟), aged 38, is an executive Director. Mr. Hirazawa is also our chief finance officer responsible for overseeing financial planning and control, accounting operations and internal control systems of our Group.

Mr. Hirazawa has around 14 years of experience in accounting, auditing and financial management. From April 2008 to March 2019, Mr. Hirazawa served at Juroku Bank Ltd (株式會社十六銀行) in Japan. He joined Juroku Bank Ltd as an officer and was subsequently promoted to a manager of the inspection department and was responsible for the management of corporate financing and financial compliance. In the periods from October 2014 to October 2017 and from April 2018 to March 2019, Mr. Hirazawa was seconded to Morimatsu Industry (being the client of Juroku Bank Ltd) and served as an accounting manager and the principal of the chairman's office (董事長室室長), respectively, where he was principally responsible for the accounting, auditing, corporate governance, financial consolidation management and general financial management of Morimatsu Industry. From April 2019 to June 2020, Mr. Hirazawa worked as a senior finance manager of Morimatsu Industry and was responsible for overseeing the financial planning, budget management and the general financial management. Since June 2020, Mr. Hirazawa has served as the supervisor of Morimatsu China.

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

Mr. Tang Wei Hua (湯衛華), aged 52, is an executive Director responsible for overseeing production operations (pharmaceutical and daily chemical industries) of our Group. Mr. Tang also holds directorship in Morimatsu Pharmaceutical Equipment, general manager of Morimatsu (Suzhou) LifeScience and chairman of Morimatsu Biotechnology.

Mr. Tang has over 22 years of experience in pressure equipment industry. From July 1991 to May 1999, Mr. Tang worked as a pipeline engineer at Shanghai Petrochemical Installment and Maintenance Co., Ltd (上海石化安裝檢修工程有限公司) and was responsible for pipeline related technology support. In May 1999, Mr. Tang joined Morimatsu Pressure Vessel and has since worked in our Group. From May 1999 to May 2003, he was pipeline engineer (管道工程師) and head of pipeline team (管道組組長), and was responsible for providing technology support for pressure equipment production. In January 2003 Mr. Tang was appointed as the head of system engineering department (系統工程科科長) of Morimatsu Pharmaceutical Equipment and subsequently promoted as the general manager of Morimatsu Pharmaceutical Equipment since May 2008.

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

Mr. Sheng Ye (盛曄), aged 47, is an executive Director responsible for overseeing production operations (chemical, oil and gas and raw materials of power battery industries) of our Group. Mr. Sheng also holds directorship in Morimatsu Heavy Industry and general manager and chairman of Morimatsu Engineering Technology.

Mr. Sheng has around 26 years of experience in pressure equipment industry. In October 1996, Mr. Sheng joined Morimatsu Pressure Vessel and has since worked in our Group. From October 1996 to October 2010, Mr. Sheng held various positions in Morimatsu Pressure Vessel, including development engineer (開發工程師), deputy chief of the sales department (銷售部副科長) and deputy head of technology department (技術部副部長), and was responsible for monitoring research and development of customised pressure equipment and overseeing sales and marketing operations. From October 2010 to February 2017, Mr. Sheng served at Morimatsu China. He joined Morimatsu China as a deputy head of technology department (技術部副部長) and was promoted as the head of technology department (技術部部長) and the principal of technology supporting centre (技術支持中心主任). Since October 2018, Mr. Sheng has served as the general manager of Morimatsu Heavy Industry and is responsible for supervising and management of sales, design and manufacture of new materials.

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

Mr. Kawashima Hirotaka (川島宏貴), aged 51, is an executive Director responsible for overseeing production safety and quality management and environmental, social and governance issues of our Group. Mr. Kawashima also holds directorship in Morimatsu China.

Mr. Kawashima has around 26 years of experience in pressure equipment industry. From March 1996 to October 2003, Mr. Kawashima served at Morimatsu Industry. He joined Morimatsu Industry as an officer of quality control department and was promoted as a manager of overseas department thereof in October 2003. In October 2003, he was designated to serve Morimatsu China and has since served as the head of production department (生產部部長), the principal of the chairman's office (董事長室室長) and vice general manger of Morimatsu China.

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

Non-executive Director

Mr. Matsuhisa Terumoto (松久晃基), aged 58, is a non-executive Director. Mr. Matsuhisa is also the chairman of our Board responsible for supervising the overall strategic planning of our Group but is neither working on a full-time basis with our Group nor otherwise involved in the daily operation and management of our Group. He is one of our Controlling Shareholders. He is also the Chairman of the nomination committee and a member of the audit committee and remuneration committee of our Board.

Mr. Matsuhisa has over 36 years of experience in business operation and corporate management. After graduation in March 1986, Mr. Matsuhisa commenced his career with Morimatsu Industry. He then served from January 1989 to January 1992, as a chief of corporate planning department (經營企劃室長) of Morimatsu Industry, and from January 1992 to September 1993, as a head of the overseas business department (海外事業部部長) and the director thereof. Mr. Matsuhisa was appointed as the general manager of Morimatsu Pressure Vessel in September 1993 and subsequently as the executive vice president thereof in November 1997. Since August 2013, Mr. Matsuhisa ceased his management position in Morimatsu Pressure Vessel. Mr. Matsuhisa is currently the executive director and chief executive officer of Morimatsu Industry and holds various positions in the subsidiaries of Morimatsu Industry (other than our Group).

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

Independent Non-executive Directors

Ms. Chan Yuen Sau Kelly (陳遠秀), aged 51, was appointed as our independent non-executive Director on 10 February 2021. Ms. Chan is responsible for supervising the management of our Group and providing independent judgement to our Board. She is also the chairperson of the audit committee and a member of the remuneration committee of our Board.

Ms. Chan has around 30 years of experience in auditing and accounting. From July 1992 to September 2001, Ms. Chan served at Deloitte Touche Tohmatsu and was responsible for provision of auditing and management advisory services to listed companies. From October 2001 to August 2007, Ms. Chan was a director and financial controller of Heineken Hong Kong Limited (喜力香港有限公司) ("**Heineken HK**"), a beer manufacturer, where she was responsible for the financial management and accounting functions. Heineken HK was then a subsidiary of Heineken N.V. (Stock code: HEIA) and is currently a subsidiary of China Resources Beer (Holdings) Company Limited (華潤啤酒(控股)有限公司) (Stock Code:291) (a company principally engaged in the manufacture and sales of beer whose shares are listed on the Stock Exchange). From August 2007 to October 2018, Ms. Chan served at Moet Hennessy Diageo Hong Kong Limited (酩悦軒尼詩帝亞吉歐洋酒香港有限公司) ("**MHD HK**") with the last position as the finance director. MHD HK is a subsidiary of LVMH Moet Hennessy Louis Vuitton SE (stock code: MC) (a company principally engaged in provision of high quality products in luxury market whose shares are listed on the Euronext N.V.). In October 2018, Ms. Chan established Peony Consulting Services Limited in Hong Kong (which is principally engaged in provision of business advisory services), and has since served as its managing director.

As at the date of this annual report, Ms. Chan is an independent non-executive director of Aluminum Corporation of China Limited* (中國鋁業股份有限公司) (stock code: 2600), whose shares are listed on the Stock Exchange.

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

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

Mr. Kanno Shinichiro (菅野真一郎), aged 78, was appointed as our independent non-executive Director on 10 February 2021. Mr. Kanno is responsible for supervising the management of our Group and providing independent judgement to our Board. He is also a member of the audit committee and nomination committee of our Board.

Mr. Kanno has over 56 years of experience in the financial and banking industry. From April 1966 to March 2002, Mr. Kanno worked at the Industrial Bank of Japan Ltd ("**IBJ**") and held various positions, including counsellor of several branch offices in Japan, manager and the chief representative of the Shanghai branch office, the director and chairman of the Chinese committee (中國委員會), and the executive director and senior counsellor of IBJ, and was principally responsible for developing new financial products, analysing financial policies, and facilitating and monitoring the expansion of the financial services of IBJ in the PRC market. In April 2002, IBJ and two other Japanese banks merged into a new entity, namely, Mizuho Financial Group (株式会社みずほフアイナンシャルグ一プ) ("**MF**") whose shares are listed on several stock exchanges, including the Tokyo Stock Exchange (stock code: 8411) and the New York Stock Exchange (stock code: MFG), and he then served from April 2002 to August 2002 as the chief executive officer of Mizuho Human Service Ltd, a subsidiary of MF in Japan, and from September 2002 to August 2012 as an advisor of Mizuho Bank Ltd (瑞穗銀行有限公司), a subsidiary of MF in Japan. Since September 2012, he served in the Tokyo International University (東京國際大學) and is currently an adjunct professor (客座教授) thereof. Since 24 June 2021, Mr. Kanno has held the position of supervisor of Toyodenso Co.,Ltd. (東洋電裝株式會社, a non-listed company).

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

Mr. Yu Jianguo (于建國), aged 61, was appointed as an independent non-executive Director on 10 February 2021. Mr. Yu is responsible for supervising and providing independent judgement to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee of our Board.

Mr. Yu has over 23 years of experience in chemical and environmental protection industries. Mr. Yu is a tutor of East China University of Science and Technology (華東理工大學) ("**ECUST**") for doctoral candidates. He had served a number of roles and positions in different departments of ECUST, including the director of its science and technology department (華東理工大學科技處處長), the director of its national technology transfer centre (華東理工大學國家技術轉移中心), the dean of its college of resources and environmental engineering (華東理工大學資源與環境工程學院院長), the dean of its post-graduate school(研究生院) and the vice-president (副校長) of ECUST. Mr. Yu is also currently the director of the National Salt Lake Resources Comprehensive Utilisation Engineering Technology Research Center of ECUST (華東理工大學國家鹽湖資源綜合利用工程技術研究中心), the director of the National Environmental Protection Key Laboratory of Chemical Process Risk Assessment and Control (國家環境保護化工過程風險評價與控制重點實驗室), and the director of the Resource Process Engineering Research Center of the Ministry of Education (教育部資源過程工程研究中心). Academic part-times of Mr. Yu include the executive director of China Chemical Industry Association (中國化工學會), the deputy director of Fertilizers Professional Committee (化肥專業委員會), and the vice-chairman of Shanghai Chemistry and Chemical Industry Association (上海市化學化工學會). Mr. Yu is also an expert in the field of resources and environment in the "11th Five-Year Plan" period of the National 863 Programme (國家863計劃) and an expert in the subject of "12th Five-Year Plan"resources, and a member of the Science and Technology Committee of the Ministry of Education (教育部科技委).

During the Reporting Period and as at the Board Meeting Date, Mr. Yu is a non-executive director of Ganfeng Lithium Co., Ltd (江西贛峰鋰業股份有限公司) (stock code: 1772), whose shares are listed on the Stock Exchange.

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

SENIOR MANAGEMENT

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

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

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap (李凱納), aged 37, was appointed as a joint company secretary of our Company on 25 September 2020. Mr. Lee has over 13 years of experience in the accounting and financial management industry. In February 2009, Mr. Lee joined Morimatsu Industry as a management trainee and was assigned to a job rotation. From February 2009 to July 2010, Mr. Lee served as an accountant of Morimatsu Industry and was responsible for account management. From July 2010 to June 2016, Mr. Lee was designated as a financial manager of Morimatsu China and was responsible for overseeing financial analysis, feasibility study, accounting and financial compliance. From June 2016 to November 2017, Mr. Lee served as the chief finance officer of Pharmadule Sweden and was responsible for financial planning and financial risk management. From November 2017 to June 2020, Mr. Lee was designated as the financial manager of Morimatsu Industry and was responsible for collection and reporting of financial and accounting information of our overseas companies to Morimatsu Industry. Since June 2020, for purpose of the Listing, Mr. Lee was designated back to our Company as a manager and is responsible for management of accounting and compliance matters. Mr. Lee obtained a dual bachelor's degree in laws and commerce from the University of New South Wales in Australia in August 2007. He subsequently obtained a master's degree in professional accounting and corporate governance from the City University of Hong Kong in Hong Kong in October 2017. Mr. Lee was admitted as a lawyer of the Supreme Court of New South Wales in February 2015 and was also admitted as a certified practising accountant from the Australian Society of Certified Practising Accountants in December 2018.

Ms. Lau Wai Yee (劉惠儀), aged 56, was appointed as a joint company secretary of our Company on 25 September 2020. Ms. Lau is a director of Immanuel Consulting Limited, a licensed company service provider specialising in integrated business and corporate services. Ms. Lau has over 34 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Her expertise extends from corporate advisory and regulatory compliance, corporate restructuring to dissolution of companies. Ms. Lau is a chartered secretary and a fellow of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom and fellow of The Hong Kong Institute of Directors. Ms. Lau has been appointed as the company secretary of Shanghai Realway Capital Assets Management Co., Ltd., the shares of which are listed on the Stock Exchange (stock code: 1835) since 13 October 2019.

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years. The financial information for the year ended 31 December 2021 is extracted from consolidated financial statements in this Annual Report while such for the years ended 31 December 2017, 2018, 2019 and 2020 is extracted from the accountants' report as contained in the prospectus of the Company dated 15 June 2021.

	For the year ended 31 December				
	2017	2018	2019	2020	**2021**
RESULTS	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Continuing operation					
Revenue	1,570,097	2,467,869	2,826,330	2,978,626	**4,278,847**
Gross profit	283,432	511,934	602,889	844,104	**1,176,371**
Profit before taxation	29,351	177,877	166,033	341,430	**447,824**
Profit from continuing operations	14,774	146,454	140,946	289,385	**380,552**
Discontinued operations					
Profit/(loss) from discontinued operations (net of income tax)	(23,094)	(20,667)	5,673	—	**—**
Profit/(loss) for the year	(8,320)	125,787	146,619	289,385	**380,552**
Profit/(loss) for the year attributable to					
Equity shareholders of the Company	7,100	116,223	149,104	289,385	**380,552**
Non-controlling interests	(15,420)	9,564	(2,485)	—	**—**
	(8,320)	125,787	146,619	289,385	**380,552**

	As at 31 December				
	2017	2018	2019	2020	**2021**
FINANCIAL POSITION	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	2,777,396	3,666,722	3,274,121	3,034,445	**5,695,324**
Total liabilities	1,339,774	2,556,418	2,567,358	2,036,133	**3,687,032**
Net assets	1,437,622	1,110,304	706,763	998,312	**2,008,292**
Attributable to equity shareholders of the Company	1,406,278	1,069,414	706,763	998,312	**2,008,292**
Non-controlling interests	31,344	40,890	—	—	**—**
Total Equity	1,437,622	1,110,304	706,763	998,312	**2,008,292**

Management Discussion and Analysis

DEVELOPMENT VISION

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

BUSINESS STRATEGY

MVP model based on value-enablement concept

Machines — Core equipment: Core products that help customers directly meet their process design requirements (including core indicators such as production capacity and quality), including reaction equipment applied to different industries and process routes, such as bioreactors, oxidation reactors, fused salt reactors, high-pressure acid leaching autoclaves, vapor deposition reactors, etc.

Values — Value-enablement: Providing customers with values that exceed the physical products itself, understanding and realizing the in-depth value needs of customers, including the industrialization application of new technologies, such as the needs for output, quality and energy consumption, and empowering downstream industries and customers to carry out process improvement and technology upgrade on a continuous basis, such as digital coverage of the full life cycle of technology, feasibility study of the industrialization of new technology, joint research and development, project consultation, basic design, conceptual design, project operation and maintenance support (software), consumables, etc.

Plants — Highly integrated system solutions: Our total engineering solution that empowers downstream companies and achieves rapid capacity deployment is a one-stop service and highly integrated product based on core equipment manufacturing capabilities, comprehensive engineering design capabilities and integrated preliminary joint research and development built upon a digital platform, and is compatible with different national standards. It is applicable to a variety of downstream industries with high flexibility in logistics, installation, operation and maintenance, and can deploy customers' technologies to all over the world in the form of a comprehensive solution in the shortest time. It is applicable not only in developed countries where labor costs are high, but also in most of developing countries where labor resources are scarce.

The MVP model represents the Group's value-enablement business strategy. Starting from innovation, the Group focuses on the synthesis technology (chemical reaction, biological reaction and polymerization reaction) of various new materials, empowers downstream companies to transform original technologies, provides highly integrated feasibility study services, laboratory solutions, engineering solutions and process route optimization solutions, as well as provides comprehensive engineering design, core equipment manufacturing, highly integrated comprehensive solutions and high-value output forms, such as process modules and modular factories, to provide customers with coverage services of the full life cycle of technology including front-end services, products and back-end services.

Front-end services: The Group develops thorough understanding of the process route of downstream products, and is able to provide and coordinate abundant resources for its customers, and realize the industrial application and research and development of new technologies, including:

- Joint research and development (with downstream customers, universities and scientific research institutions)
- Feasibility Study
- Project Consulting Services
- Concept Design
- Others

Products (advanced manufacturing): The Group possesses strong manufacturing capabilities, all-round product performance, world-class final assembly base, and self-owned deep-water export terminals.

- — Core equipment (reactor) => Modular devices (complete sets of highly-integrated equipment, such as process system) => Modular factory (integrated system of ultimate modularized concept + factory)
- — Other complicated equipment

Back-end service (digitalization): represents digital operation and maintenance platform after project delivery, including:

- — Continuous operation and maintenance tracking service
- — Continuous process improvement service

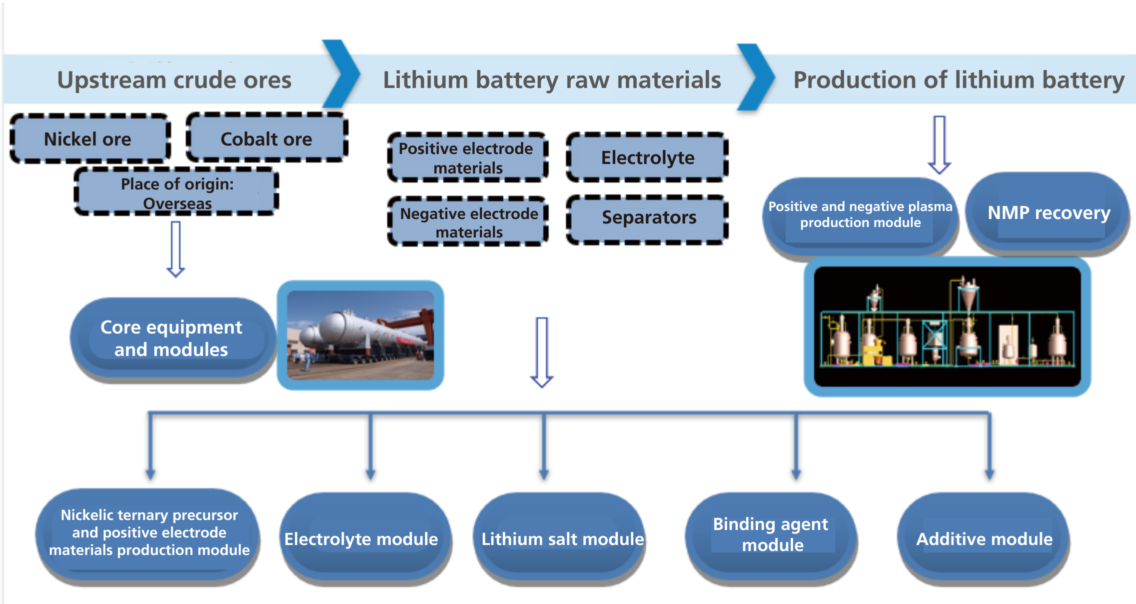
PERFORMANCE AND GROWTH OF OUR PRINCIPAL SECTORS

The Group is principally engaged in the design, manufacture, installation, operation and maintenance business, which is mainly applied to the core process equipment, process systems and comprehensive solutions including chemical reactions, biological reactions and polymerization reactions. The downstream industries/sectors served by the Group currently include oil and gas, daily chemicals, new chemical materials, pharmaceutical (including biopharmaceutical and synthetic chemical drugs), raw materials of power battery (including metallic ores and lithium battery raw materials) and electronic chemicals (including the production of photovoltaic raw materials and high-purity chemical reagents), etc.

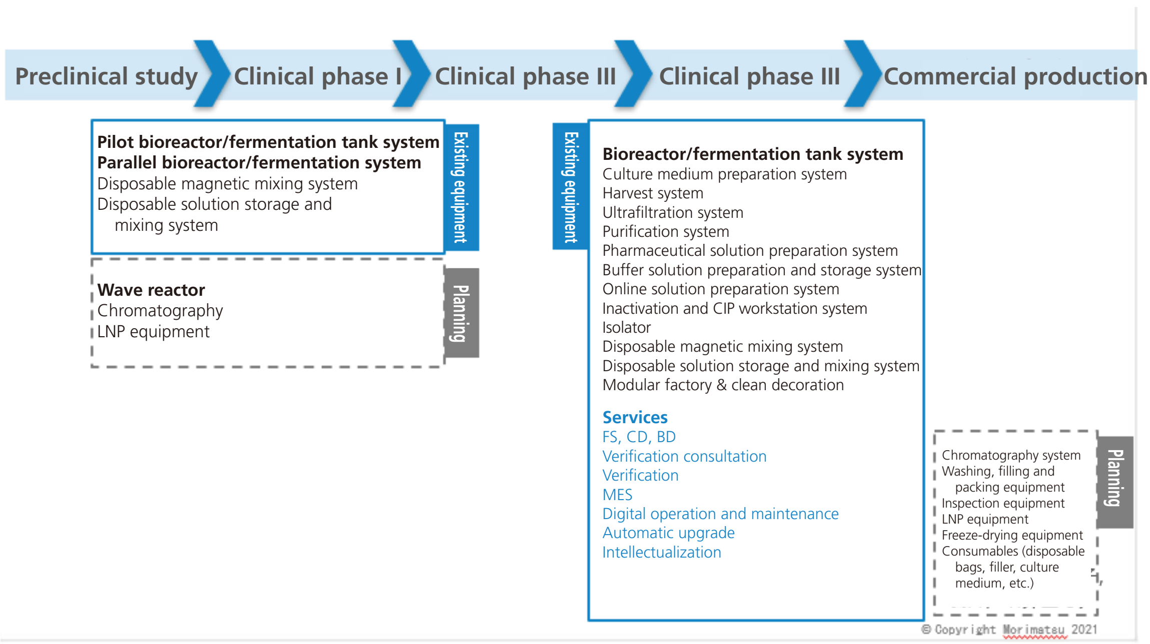
The Group currently has two modern production bases in Nantong and Shanghai, China, and a coastal production base in Malaysia. During the Reporting Period, the Group established Morimatsu (Suzhou) LifeScience, which is located in Suzhou Pharmaceutical Valley, adjacent to the Group's production base in Nantong. It is mainly engaged in the manufacturing of high-end intelligent equipment and complete sets of professional precision equipment in the fields of biopharmaceuticals, daily chemicals and electronic chemicals. Such production base will commence construction in 2022 and is planned to officially enter into production in the second half of 2023, and will become another growth engine for the Group.

During the Reporting Period, the Group's main drivers for business growth were from the industries/sectors of (1) pharmaceutical and biopharmaceutical; (2) raw materials of power battery; (3) new chemical materials; and (4) electronic chemicals. The two most active industries were raw materials of power battery and pharmaceuticals and biopharmaceuticals.

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



In the field of biopharmaceuticals, the Group provides a wide range of technologies and products for downstream industries and customers at different stages from laboratory, clinical phase I, II, III to industrial production. It covers upstream and downstream products and diverse products for its rennovation needs, including bioreactor/fermentation tank system, culture medium preparation system, harvest system, purification system, pharmaceutical solution preparation system, buffer solution preparation system and storage system, online solution preparation system, inactivation and CIP workstation system, isolator, disposable magnetic mixing system, disposable solution storage and mixing system, modular factory and clean decoration.



Set out below is the amount of new orders of the major downstream industries for the year ended 31 December 2021 and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts as at 31 December 2021. The rapid growth of the Group's business is mainly attributable to the industries of pharmaceutical and biopharmaceutical and the raw materials of power battery. The contribution from the business of these two industries accounted for over 50% of the total amount of new orders received by the Group and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts.

Downstream Industry	The amount of new orders RMB'000	Proportion	The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts RMB'000	Proportion
Electronic chemicals	760,027	11.4%	391,469	6.8%
Chemicals	1,422,449	21.4%	1,844,748	32.3%
Daily chemicals	148,573	2.2%	84,979	1.5%
Raw materials of power battery*	1,406,727	21.1%	1,167,816	20.4%
Oil and gas	332,697	5.0%	243,928	4.3%
Pharmaceutical and biopharmaceutical	2,401,812	36.1%	1,748,949	30.6%
Others	181,864	2.8%	238,137	4.1%
Total	6,654,149	100.0%	5,720,026	100.0%

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

CONCERTED EFFORT TO COMBAT THE COVID-19 PANDEMIC

During the Reporting Period, under the leadership of the Board, the Group have overcome the prolonged impact in such aspects as supply chain, human resources coordination, domestic and overseas logistics, and project site support caused by the volatile COVID-19 pandemic situation with high morale and perseverance, so as to safeguard the interests of customers, suppliers, other stakeholders, as well as the Group and its employees to the greatest extent.

During the year of 2021, the Group successfully delivered the first set of mRNA vaccine production facilities in China which adopted the world's advanced nucleic acid drug platform production technology, with a designed annual production capacity of 200,000,000 doses. In just seven and a half months, the Group centralised its advantageous resources to complete the design, construction, assembly and on-site commissioning of a modern biopharmaceutical plant. The successful delivery of the project not only marks the breakthrough of China's COVID-19 vaccine technology, but also demonstrates the determination and perseverance of the Group and its employees to overcome difficulties and take on corporate social responsibility.

The Group also spared no effort to assist customers of domestic and overseas biopharmaceutical companies to provide high-quality engineering project solutions in different subfields such as antibodies, nucleic acid drugs and vaccines, rapidly promoting the launch of advanced biopharmaceutical products all over the world, helping people in different countries and regions overcome the COVID-19 pandemic as soon as possible, and helping people's livelihood and economic development to get back on the right track as soon as possible.

MACRO POLICIES AND MARKET ANALYSIS OF KEY DOWNSTREAM INDUSTRIES/ SECTORS

In 2021, the Central Economic Conference of China put forward the key tasks of "strengthening the support of macro policies", "stimulating the vitality of market players", "enhancing the core competitiveness of the manufacturing industry" and "opening up to the outside world at a high level", which clearly required the promotion of the development of the manufacturing industry.

During the Reporting Period, the Group kept a close eye on the development trend of the global market and the macro policies of the regions where it operates, adjusted its industrial strategies in a timely manner, and formulated market strategies, product strategies, talent strategies and capacity development plans with the goal of pursuing circular growth and sustainable development. In the process of pursuing continuous improvement in profitability, the Group determined the target market, development pace and resource layout in the medium and long term in the future based on the macro policies and market condition.

Clean energy and raw materials of power battery

On 24 October 2021, the central government of the PRC issued the "Opinions of the Central Committee of the Communist Party of China and the State Council on the Full Implementation of the New Development Concept of Carbon Peak and Carbon Neutrality《中共中央國務院關於完整準確全面貫徹新發展理念做好碳達峰碳中和工作的意見》". The opinions first responded to the solemn commitment of President Xi Jinping at the 75th United Nations General Assembly on 22 September 2020, which expressed China's resolution to reach the peak of carbon dioxide emissions by 2030 and achieve the goal of carbon neutrality by 2060, of which the proportion of non-fossil energy consumption accounts for more than 80%.

In November 2021, the National Development and Reform Commission of the State Council proposed the "National Clean Production Implementation Plan of the 14th Five-Year Plan《「十四五」全國清潔生產推行方案》", which requires the application of new energy and clean energy in the transportation sector. In January 2022, the Ministry of Transport proposed the "Green Transportation Development Plan of the 14th Five-Year Plan《綠色交通「十四五」發展規劃》", which requires the further reduction of the energy consumption and carbon emission intensity of operating vehicles and ships, and the significant increase in the proportion of new energy and clean energy applications.

According to the data released by China Automotive Power Battery Industry Innovation Alliance, in 2021, the cumulative production volume of power batteries in China was 219.7 gigawatt hour ("**GWh**"), representing a year-on-year increase of approximately 163.4%; the sales volume was 186.0 GWh, representing a year-on-year increase of approximately 182.3%; the installed capacity was 154.5 GWh, representing a year-on-year increase of approximately 142.8%. At the same time, according to Huaan Securities Co., Ltd. (華安證券股份有限公司), the production and sales volume of new energy vehicles increased significantly, and the production capacity of battery manufacturers will also increase, which is expected to lead to a favourable rise in volume and price. It is expected that the global installed capacity of power battery will reach 450 GWh and the domestic installed capacity will reach 230 GWh in 2022. Citic Securities Company Limited (中信證券股份有限公司) anticipated that the global demand for power batteries for new energy vehicle will reach 1380 GWh in 2025, with a large demand space and high pace of growth.

According to the statistical data of mandatory liability insurance for traffic accidents of new energy vehicle released by Gaogong Industry Institute. Co. Ltd. (高工產業研究院) (GGII), in 2021, the sales of new energy vehicles in China was approximately 3,029,000 units, representing a year-on-year increase of approximately 143%; the installed capacity of power battery was approximately 139.98 GWh, representing a year-on-year increase of approximately 128%. Among them, the long-term demand for raw materials of power battery caused by the rapid development of new energy vehicles has also been witnessed in the upstream markets since 2021, including nickel, cobalt, manganese and other positive electrode materials, graphite and other negative electrode materials, lithium carbonate, lithium hydroxide, polyvinylidene difluoride ("**PVDF**"), lithium hexafluorophosphate, lithium difluorophosphate, electrolyte, etc..

In 2021, the price of lithium battery raw materials for new energy vehicles increased rapidly. According to the report of China Automotive News on 5 November 2021, the trading quotation system of lithium battery industry chain showed that the quoted price of lithium carbonate on 19 October 2021 reached RMB200,000 per ton, representing an increase of 233% as compared to the beginning of the year; the quoted price of lithium hexafluorophosphate was RMB520,000 per ton, representing an increase of nearly 400%; the price of PVDF increased by more than 100% from the beginning of the year. Meanwhile, the price of positive electrode materials for lithium ferrous phosphate increased from RMB35,000 per ton at the beginning of the year to RMB65,000 per ton as of now; the price of ternary 523 monocrystalline materials increased to RMB200,000 per ton from RMB110,000 per ton at the beginning of the year; the price of electrolyte increased to RMB110,000 per ton currently from RMB35,000 per ton at the beginning of the year. The foreseeable continuous increase in raw material prices will drive a new round of upstream capacity expansion. The rapid market penetration of new energy vehicles will promote a long-term and sustainable upstream and downstream investment boom in raw materials of power battery.

Biopharmaceutical

The report of the 19th National Congress of the Communist Party of China pointed out that, in the new era of socialism with Chinese characteristics, the main contradiction in the Chinese society has been transformed into the contradiction between the people's growing needs for a better life and the unbalanced and inadequate development. One of the key elements to improve average life expectancy and promote healthy living is the high-quality and rapid development of the biopharmaceutical industry.

On 11 March 2021, the "14th Five-Year Plan (2021–2025) for National Economic and Social Development of the People's Republic of China and the Outline of Long-Range Objectives Through the Year 2035《中華人民共和國國民經濟和社會發展第十四個五年（2021–2025年）規劃和2035年遠景目標綱要》" (the "**14th Five-Year Plan**") was approved at the 4th meeting of the 13th National People's Congress, in which the key words related to biopharmaceuticals, such as biomedicine, gene technology, life health, pharmaceuticals and medical devices, were included in the key words of the new pillar of the industrial system, future industries, frontier fields and key core technologies, respectively. In innovation-driven and key development areas, biopharmaceutical was listed as a major innovation area and a key development direction, respectively. All regions in China, including the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, have launched the 14th Five-Year Action Plan for biopharmaceutical, of which the scale target for industrial construction (2025) in Shanghai alone is RMB1,000 billion.

The Frost & Sullivan Institute estimates that the global biopharmaceuticals market will reach approximately USD768 billion in 2030; and the biopharmaceuticals market in China will reach approximately RMB1,303 billion in 2030. In 2019, the global biopharmaceuticals and Chinese biopharmaceuticals accounted for approximately 22% and 19% of each of their drug markets, respectively, and the proportion will increase to approximately 37% and 41%, respectively, by 2030. From the research report of China Securities Co., Ltd. ("**China Securities**"), the current market size of the biopharmaceutical market in China accounts for approximately 18% of the global market size. The expected growth rate of biopharmaceutical equipment and consumables is approximately 17% and 20% from 2020 to 2025, respectively. From 2022 to 2025, the total order amount of equipment corresponding to the additional production capacity in the domestic biopharmaceutical market in China is expected to reach approximately RMB84.3 billion, and the biopharmaceutical supply chain will continue to boom.

Digital factory

Based on the relevant data of the entire product life cycle, the digitalised factory conducts digital definition, process simulation, process evaluation and optimisation of the entire production process in the computer environment, and further expands to the new production organisation mode of the entire product life cycle. According to the definition of the German Institute of Engineers, a digitalised factory is an integrated network consisting of digital models, methods and tools, including simulation and 3-Dimensional ("**3D**")/Virtual Reality ("**VR**") visualisation, which is integrated together through continuous uninterrupted data management.

The core elements of the construction of a digitalised factory can be summarised into factory equipment digitalisation, factory logistics digitalisation, design and research and development digitalisation, and production process digitalisation. Through the construction of these four aspects, it drives the innovation of product design methods and tools, and the innovation of enterprise management models. The technology of digitalised factory based on the internet, digital platforms, and cloud big data storage and exchange is believed to be one of the important display forms of Industry 4.0 that refers to using CYBER-physical System ("**CPS**") to digitize and intellectualize the supply, manufacturing and sales information in production, and finally achieve fast, effective and personalized product supply.

The competitive advantages of manufacturing enterprises, especially non-traditional manufacturing enterprises, are to build a service platform based on digitalisation and big data, create competitive advantages on the basis of empowering downstream enterprises and helping customers optimise processes and costs, and meet the in-depth value needs of downstream enterprises to jointly improve profitability and diversity of future development.

During the Reporting Period, the Group also successfully realised the sales of factory operation and maintenance software, and expects to further promote this high value-added and high-tech business through in-depth cooperation with downstream industries and enterprises.

New chemical materials

According to the "14th Five-Year Planning Guide for the New Chemical Materials Industry《化工新材料行業「十四五」規劃指南》", the production scale and growth rate of new chemical materials in China ranked first in the world, but the self-sufficiency rate was insufficient in some sub-sectors. New chemical materials are an important foundation for the development of strategic emerging industries. During the period of the 14th Five-Year Plan, we need to achieve breakthrough in the new materials in key application fields, deploy a batch of cutting-edge new materials, accelerate the initial market cultivation of key new materials, and improve the basic guarantee level of new chemical materials in the industrial field.

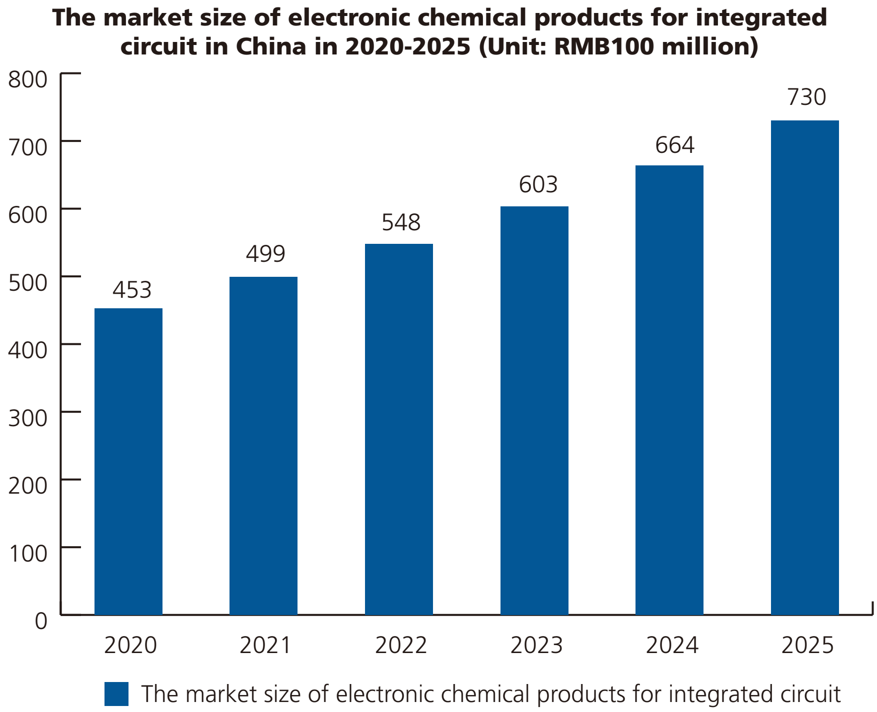
New chemical materials are the foundation for the development of strategic emerging industries, and also an important direction for the transformation, upgrade and development of traditional petrochemical and chemical industries. These include high-performance resins, such as high-end polyolefin, engineering plastics, polyurethane, degradable materials and their raw materials, special synthetic rubber and high-performance fibers. Functional film materials include lithium battery separator and photovoltaic film (such as ethylene-vinyl acetate ("**EVA**") encapsulant film, polyvinyl fluoride ("**PVF**")/PVDF backplane protective film, etc.) which are widely used in the new energy industry. Specialty chemicals include high-purity reagents, specialty gases and solvents.

Electronic chemicals

One of the core processes in the semiconductor manufacturing process is the graphical process, which involves the transfer of the designed image from a mask plate to a suitable position on the surface of the wafer, generally including two major procedures, namely lithography and etching. The wafer surface is first cleaned before lithography by mainly using related electronic-grade reagents, including acetone, methanol, isopropanol, ammonia, hydrogen peroxide, hydrofluoric acid, hydrogen chloride, etc. After cleaning, the wafer is then coated with a layer of photoresist on the surface by spin-coating method and dried before being transferred to the lithography machine. The production process of electronic-grade reagents shall include special processes such as pre-treatment, filtration and purification in order to obtain high purity products (such as part per trillion ("**PPT**") grade). Among them, hydrogen peroxide, hydrofluoric acid and sulphuric acid are the most consumed products.

Wet electronic chemicals are the key supporting products throughout the whole chip manufacturing process. They can be divided into ultra-clean high-purity reagents and functional wet chemicals, which mainly cover the cleaning, etching and imaging processes in wafer manufacturing. Whether their purity and the size of impurity particles meet the standards has a great impact on the quality of precision chip manufacturing. China Securities believes that, at present, the localisation rate of high-end wet electronic chemicals is relatively low. Fields such as photo-initiators and developers are solely dependent on imports in general, and the demand for domestic substitution is increasing.

The semiconductor industry is rapidly shifting from concentrating in a few countries and regions to more countries, especially in China and other traditional markets. The development of the semiconductor material market is also growing rapidly. In the future, driven by the domestic substitution of electronic chemical products and the promotion of intelligent manufacturing and industrial informatisation construction in China, the market size of electronic chemical products for integrated circuit in China will maintain a continuous growth trend. According to the estimate of the Forward Industry Research Institute, the market size of the integrated circuit chemical industry in China will reach approximately RMB73 billion by 2025, representing a Compound Annual Growth Rate ("**CAGR**") of approximately 10%.



Source: collected by the Forward Industry Research Institute

In conclusion, technological innovation is the biggest driving force for the development of the industry. The continuous diversed development of the Group is attributable to the continuous technological innovation in different downstream industries/sectors. The macro policies favourable to the development of enterprises represent the expectations and requirements of the society for each industry. Therefore, people's pursuit of a better life reflects the long-term needs of the society for green energy, new chemical materials, advanced biological drugs and cutting-edge electronic products. The Group promotes its growth through technological innovation, while regarding meeting the needs of downstream industries as its development value and promoting a better life for mankind and building a green home as its corporate mission. The products and services of the Group will also be upgraded in tandem with the technological iteration of downstream industries in the long term, which will help customers realise their corporate value and fulfill their industry mission.

CORE PRODUCTS AND PRINCIPAL BUSINESS SECTORS

During the Reporting Period, the Group combined core equipment and solutions, hardware and software, participated in specific projects and cooperated with downstream research and development to implement a flexible and diversified product strategy that empowers downstream industries with service value. In line with the themes of combating COVID-19, new energy vehicles, centralized procurement of pharmaceuticals, biopharmaceuticals, environmental materials, and environmental governance, the Group has achieved historical breakthroughs in orders and innovative application of technologies in various fields, mainly in the following industries/sectors:

Biopharmaceutical and chemical synthetic drugs

During the Reporting Period, the Group's amount of new orders in the fields of biopharmaceuticals and chemical synthetic drugs showed a rapid and stable growth. In particular, the following subfields demonstrated an apparent growth trend:

- **The production of vaccine (mRNA, human papillomavirus ("HPV") and other combined and polyvalent vaccines)**

  During the Reporting Period, the Group delivered the first mRNA modular factory in China. Such factory has captured wide attention in the biopharmaceutical industry after delivery, triggering the imitation of many domestic and foreign enterprises. More than 80% of the workload of the modular factory projects can be completed in off-site workshops, which is not affected by the external environment. Coupled with the stable supply chain and the dividends of engineers and workers in the PRC, these projects enable faster delivery, lower risks, greater flexibility and predictable implementation. Going forward, the Group will continue to benefit from project opportunities on the mRNA platform.

  During the Reporting Period, the Group continued to cooperate with leading HPV vaccine manufacturers in China to provide them with core equipment and process systems such as fermentation tank, purification/pharmaceutical solution preparation system and adjuvant preparation system, so as to help them achieve rapid industrialization in the field of vaccines, satisfy the tremendous market demand, and benefit China and people all over the world.

- **Antibody production**

  Antibody technology has been developed in China for more than a decade and has now entered a bonus period of rapid and large-scale industrialization. The Group has maintained a sustainable and steady growth in this field on the basis of its track record and years of technology accumulation.

  During the Reporting Period, the Group provided large-scale bioreactors to a number of domestic and foreign antibody manufacturers. In particular, the Group provided numerous sets of 20KL to a CDMO giant in Switzerland for bioreactor projects for antibody production, which was one of the largest bioreactor projects in the world.

- **Production of third generation long-acting insulin**

  The incidence of diabetes in China has increased significantly in recent decades, and has reached the level of epidemics. Due to the continuous increase in demand, there exists a huge mismatch between supply and demand in the current insulin market. During the Reporting Period, the Group's performance in the subfield of insulin production improved significantly, and the Group continued to cooperate with leading enterprises, mainly providing them with large-scale fermentation tanks and process systems for the production of third generation long-acting insulin.

- **Production of recombinant human albumin solution**

  The production of recombinant human albumin is a breakthrough in the global biopharmaceutical technology, which not only guarantees production volume, but also avoids potential hematological infectious diseases and ensures timely and safe medication for patients. Due to the high technical barrier, there are few companies that can achieve large-scale production of recombinant human albumin solution. During the Reporting Period, the Group newly entered into the largest order for recombinant human albumin fermentation system in China and a number of orders for downstream purification system, realizing a new technological leap.

Raw materials of power battery

- **Nickel extraction**

  Since 2004, the Group has been providing core reactors (autoclaves) for important nickel/cobalt mine projects in China and abroad. During the Reporting Period, the Group provided core reactors, modular pilot devices and after-sale supporting services for different nickel projects located on Sulawesi Island, Indonesia. Among them, the modular pilot device has even become a research case of the National Hydrometallurgical Engineering Center of Indonesia.

- **Production of positive electrode materials, electrolyte, adhesives and additives**

  As early as 2011, the Group provided three sets of modular production equipment for a lithium battery electrolyte project of an international chemical giant. During the Reporting Period, the Group continued to empower domestic and overseas downstream enterprises engaged in the production of raw materials of power battery. The products were mainly used in the production of lithium hexafluorophosphate, lithium bis(fluorosulfonyl) amide, electrolyte, adhesives and ternary precursor, and the recovery of N-methyl pyrrolidone ("**NMP**") solution.

  The Group will continue to provide core equipment, modular production devices and total engineering solutions for raw material manufacturers of power battery, helping downstream enterprises to attain process improvement, production capacity enhancement and rapid expansion, and matching the raw material of power battery industry chain with the rapid development needs of the lithium battery industry.

New chemical materials

During the Reporting Period, the Group provided multiple units/sets of core equipment and complete sets of equipment for the new environmentally friendly materials and high-performance engineering plastics projects of domestic and overseas leading chemical enterprises, which mainly involved the production of polylactic acid, nylon 66, citral, cyclohexanol, butanol, polyadipate, propylene oxide, purified terephthalic acid ("**PTA**"), polyether amine and other products.

The Group will continue to actively cooperate with leading downstream chemical enterprises, with a focus on new engineering materials, environmentally friendly materials, and the three industrial wastes treatment. Through joint laboratory, joint research and development, customized engineering solutions, and the provision of core equipment, the Group will work with customers from the stage of research and development to small-scale test and pilot test until commercial production. The Group also actively participates in the preliminary research and development of various new materials through cooperation with domestic and foreign universities and scientific research institutions.

Electronic chemicals

In 2016, the Group introduced relevant technologies from Japan and started to expand the market in relation to electronic chemicals. At present, the Group is able to provide customers with high-end electronic chemical devices for the production of G5 PPT grade high-purity hydrogen peroxide, high-purity ammonia water and high-purity sulphuric acid. During the Reporting Period, the Group's business in this industry gained a significant upward momentum. In the fields of photoresist and chemical mechanical polishing ("**CMP**") liquid, the Group has established close cooperation with a number of domestic and foreign high-end electronic chemical manufacturers.

PRIORITY FOR INNOVATION AND DIGITAL INTELLIGENCE

During the Reporting Period, the Group proposed the expansion strategy to both ends of the smiling curve for the position of its products in the industry chain. In addition to the abovementioned specific products, the Group actively penetrates into downstream industries research and development by establishing joint laboratories with customers, forming joint research and development teams, participating in small-scale tests (development and optimisation of original technologies) and pilot tests (verification and utilisation of technologies), and cultivates sustainable market competitive advantages through product differentiation strategy.

Shifting to the two ends of the smile curve is a necessary step for manufacturing enterprises to become capable of creating high added value, sustaining continuous innovation and generating service profitability. Its front-end businesses include the early establishment of joint research and development teams and shared laboratories; while its back-end businesses include in-depth support for operation and maintenance, provision of management software, and even the realisation of digital twin factories. During the full life cycle of new technologies, we provide services from digital research, design, manufacturing, delivery to operation and maintenance, so as to support the continuous improvement of technologies and processes in downstream industries.

At the same time, through close cooperation with downstream customers and in-depth understanding of the production processes, the Group's one-stop solution also includes the operation and maintenance software of factories and complete sets of module products. Project solutions based on digital technology include software products that assist customers in managing factory operations, maintenance and subsequent technology upgrades. From laboratory to control room, the Group's products can provide one-stop engineering solutions with both software and hardware for downstream customers. Offering hardware products accompanied with our services, we are able to provide customers with more efficient solutions and professional operation and maintenance service support, realise the full life cycle coverage of advanced technologies and complex projects, and empower downstream industries to continuously improve their production efficiency and process routes through digital platforms.

Guided by the innovation-driven empowerment strategy, the Group continues to introduce industry-leading new technologies and new products. Through its subsidiaries in Sweden, Italy, India, Malaysia, Japan and the United States, it attracts professionals from all over the world to provide customers with high value-added services in terms of feasibility studies, technical and project consultation and front-end design.

CYCLICAL AND SUSTAINABLE DEVELOPMENT OF DOWNSTREAM INDUSTRIES/ SECTORS

The continuous development of downstream industries is derived from the continuous innovation of technology, which is in turn derived from the pursuit of a better life by the human society. The products of the pharmaceutical industry enable people to live a healthier life, and the products of the new chemical materials sectors endow people with a better and more environmentally friendly living environment. As a result, the crave and pursuit of a better life and a better world have promoted the demand for various synthetic new materials, including biological materials and chemical materials, by the human society. The new technology contained therein gives rise to the continuous introduction of new equipment, new processes and new platforms.

The Group has tapped into the forefront fields in biopharmaceuticals, such as nucleic acid drugs (Ribonucleic Acid ("**RNA**")/DNA/oligonucleotide), bispecific antibodies, Antibody-Drug Conjugates ("**ADCs**"), cell therapy ("**CAR-T**") and other fields. The market size of these sectors is forecasted to be over 10 billion USD by different institutions. The Group is also continuously carrying out technical preparation and talent training for the new sectors, planning for the core equipment and process systems required in the development of in the new areas, and continuously improving its ability to provide integrated engineering solutions in the new areas. Before some existing fields enter the bottleneck period of development, the Group will focus on new fields and seise every opportunity in the development of new industries.

The rapid development of the raw materials of power battery market reflects the huge demand for new energy in the whole society. Moreover, the production means of non-renewable resources (metal ores such as nickel, cobalt and lithium) and chemicals (including products such as electrolyte, additives, binding agents and lithium salts) have become more demanding, relying more on efficient and environmentally friendly engineering solutions. The Group's industry performance, market reputation, technology accumulation and professional team will continue to empower downstream industries to continuously expand production and upgrade the industry chain.

The Group's business relies on cyclical investments in different downstream industries. However, as the cyclicality of different industries and customers varies, the Group is able to incorporate its existing production capacity and planned production capacity into the investment cycle of different industries, thereby making use of the cyclicality of downstream industries to effectively utilise existing production capacity and rationally plan for future production capacity, so as to avoid the risk of rash expansion in the short term to meet the growth and expansion needs of downstream markets.

The abundant applications of downstream markets, the continuous updating of material science and technology, the large existing customer base and their leading position in the industry can ensure the sustainable business growth, technological development and products and services iteration of the Group.

TALENT STRATEGY

Talent is the most valuable asset of the Group. "Investment", "construction" and "development" are the three key words of the Group's talent strategy.

Investment

The Group believes that the greatest investment of an enterprise shall be the investment in talents, while the construction of system and platform is crucial for the investment in talents. The Group attaches great importance to the professional training, job selection and career planning for the most recent school graduates upon their joining. While insisting on providing complete and abundant on-the-job training, the Group also actively provide opportunities to study doctoral degrees at top-ranking universities overseas to employees who need further professional education.

The Group has a well-developed internal training system, which was established to pass on corporate culture, promote corporate values and share the wisdom on technology, management and business operation. The Group's employees have the opportunity to learn theoretical knowledge, practical skills and valuable case studies from specially-commissioned academic and industry experts as well as experts and specialist from various disciplines within the Group.

The Group's employee care policy also addresses employees' concerns to the greatest extent. For further details of the Group's employee care policy, please refer to the section headed "ESG Report" of this annual report.

Construction

The Group currently employs 3,211 people, of which more than 1,600 are in engineering and technical management, including more than 400 research and development personnel. The Group's research and development system consists of the following three patterns:

(1) the research and development of a new technology application (such as a new material engineering application)

(2) the joint research and development of a new product (such as joint research and development of a technology or product with downstream enterprises)

(3) joint research and development in collaboration with domestic and foreign universities and research institutions (industry-academia-research combination)

Leveraged on the close cooperation with leading enterprises in the industry, practical experience on project operation, and the above three research and development patterns, the Group has established a good mechanism for the supply and cultivation of talents within the organization. Apart from that, the Group also enriches its talent pool through annual recruitment from universities, targeting mainly undergraduates and master/doctoral students of chemical engineering, materials engineering, mechanical engineering, mechanics, thermal engineering, chemistry from renowned domestic and overseas universities.

The Group's subsidiaries in Stockholm, Milan and Yokohama recruit overseas professionals, industry experts and standard-setters to provide front-end support for feasibility studies, conceptual designs, information consultation on new technologies and products, project consultation and validation services.

Development

The Group provides an incubation platform and encourages employees to form internal entrepreneurial teams within the framework of the Group to utilize the Group's resources and technologies as well as their own expertise to develop new technologies and products. When such new technologies and new products enter a certain stage of development, the Group will establish a company jointly with the entrepreneurial team to realize joint development of the Group and its employees. At present, the Group has established six internal entrepreneurial teams, which are engaged in new technologies and new products in the fields of new materials, biopharmaceuticals and advanced equipment.

The Group embraces the people-oriented business philosophy, with the business approach based on the satisfying customers' value needs, employees' growth needs and corporate development needs. The Group believes that the knowledge of the advanced technological changes, the leadership of industry development trends, and the drive for sustainable growth of an enterprise are all derived from the investment, construction and development of human resources.

CONTINUOUS GROWTH AND FUTURE DEVELOPMENT

In addition to non-renewable natural resources, such as metal minerals and fossil energy, most of the materials that are closely related to modern civilisation are products from biological reactions, chemical reactions and polymerisation reactions, such as chemical fibres, artificial rubber, chemical synthesis drugs, skin care and hair care products, synthetic proteins and lithium batteries for new energy vehicles required for daily life. Since the 1800s, the rapid development of human civilisation, including the upgrading of technologies in agriculture, industry, food and medical care, is inseparable from the advancement of material technology.

The core technologies of the Group are derived from the understanding and application of biological reactions, chemical reactions and polymerisation reactions. In particular, technological changes and product innovation based on downstream sectors/industries (including pharmaceutical and biopharmaceutical, new chemical materials, raw materials of power battery, electronic chemicals, etc.) will become the driving force of the Group's technological development.

The Group's core technology is to transform original technologies of downstream industries (such as laboratory technology and small-scale production technology) into highly integrated and highly efficient engineering products and solutions with high economic benefits. Every technology upgrade from downstream industries will drive the upgrade of products and technologies of the Group. At the same time, the Group's talent pool, research and development and technical teams and diversified and rich industry experience can also help downstream enterprises to jointly realise the introduction of new technologies and new products. Digital technology full life cycle solutions will help enhance the technical attributes and upgrade potential of core equipment in different industries, and at the same time enable the Group's products and services to provide more in-depth added value, thereby improving customer loyalty and achieving technological innovation and industry advancement with downstream partners.

Orderly capacity expansion and steady development are the Group's guidelines and ideas for capacity building during the Reporting Period. The reasonable expansion of production capacity can not only respond to the development needs of different downstream industries in a timely manner, but also balance the distribution of the Group's resources, achieve forward-looking planning, guide the sales team to receive orders in an orderly manner, as well as facilitate the efficient operation of the operating system and the successful achievement of the final financial goals. The Group will continue to select high-return downstream sectors and product portfolios under the production capacity condition of "tight balance between supply and demand", so as to achieve steady growth in sales revenue, profit and production efficiency. Meanwhile, the timely launch of the manufacturing base in Malaysia also marks the Group's determination and attitude to penetrate into the global market and adhere to the balance between domestic and overseas markets.

In the second half of 2021, the markets outside China gradually recovered. With the further development of the Group's overseas subsidiaries, the Group's overseas business also gradually recovered. In the coming years, the Group's domestic and overseas business and market layout will be further balanced. In the post-pandemic era, countries around the world will re-build their national strategies from multiple perspectives such as sustainable green development, food and pharmaceutical safety, and energy security, which will further accelerate the transfer of new material technologies to all over the world and a new round of global industrial infrastructure construction. The development of the Group has witnessed the biggest driver of the development of human civilisation, which has always been the pursuit of a healthier life, a greener world and a better future.

Relying on business support, industry support and technical support, the Group will continue to uphold the spirit of innovation, pursue breakthrough and advancement, adhere to the layout in the entire industry chain, keep up with the innovation in downstream industries, and strive for simultaneous growth and advancement with customers and employees. By maintaining outstanding performance and sound growth, we endeavour to give back to society and deliver returns to all investors, customers, employees and partners.

REVIEW OF FINANCIAL DATA

During the Reporting Period, the Group recorded revenue of approximately RMB4,278,847,000, representing a year-on-year increase of approximately 43.7%. During the Reporting Period, the Group's profit for the year attributable to owners of the parent company was approximately RMB380,552,000, representing a year-on-year increase of approximately 31.5%.

Revenue

During the Reporting Period, the Group recorded revenue of approximately RMB4,278,847,000, representing a year-on-year increase of approximately 43.7% as compared to approximately RMB2,978,626,000 for the year ended 31 December 2020. The increase in revenue was mainly attributable to the revenue generated from three major industries, namely chemical industry, pharmaceutical industry and electronic chemical industry.

Revenue by end application	For the year ended 31 December				Increase/ (decrease)	Year-on-year change
	2021		2020			
	RMB'000	**Proportion**	RMB'000	Proportion	RMB'000	
Electronic chemical	**441,742**	**10.3%**	70,100	2.4%	371,642	530.2%
Chemical	**1,670,471**	**39.0%**	1,024,330	34.4%	646,141	63.1%
Daily chemical	**157,330**	**3.7%**	294,975	9.9%	(137,645)	-46.7%
Raw materials of power battery*	**261,270**	**6.1%**	388,799	13.1%	(127,529)	-32.8%
Oil and gas	**258,516**	**6.0%**	211,490	7.1%	47,026	22.2%
Pharmaceutical	**1,302,977**	**30.5%**	769,314	25.8%	533,663	69.4%
Others	**186,541**	**4.4%**	219,618	7.3%	(33,077)	-15.1%
Total	**4,278,847**	**100.0%**	2,978,626	100.0%	1,300,221	43.7%

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

Cost of sales

During the Reporting Period, the cost of sales increased by approximately RMB967,954,000, or approximately 45.3%, to approximately RMB3,102,476,000 from approximately RMB2,134,522,000 for the year ended 31 December 2020. The increase in cost of sales was slightly higher than that of revenue, mainly due to the fact that (1) the once-off social insurance reduction and exemption granted by the government due to the COVID-19 pandemic for 2020 and no such grants for 2021; (2) the prolonged execution cycle after the resumption of suspended projects in the daily chemical industry, resulting in an increase in costs; and (3) higher raw material costs for some strategic orders.

	For the year ended 31 December				Increase/	
	2021		2020		(decrease)	Year-on-year
Cost of sales	**RMB'000**	**Proportion**	RMB'000	Proportion	RMB'000	change
Raw materials and consumables	**2,037,680**	**65.7%**	1,379,410	64.6%	658,270	47.7%
Direct labour costs	**406,600**	**13.1%**	316,148	14.8%	90,452	28.6%
Outsourcing fees	**249,441**	**8.0%**	141,045	6.6%	108,396	76.9%
Installation and repair cost	**182,676**	**5.9%**	120,883	5.7%	61,793	51.1%
Depreciation	**57,291**	**1.8%**	52,375	2.5%	4,916	9.4%
Impairment losses on assets	**(9,071)**	**-0.3%**	(8,741)	-0.4%	(330)	3.8%
Others (indirect labour cost + design fees)	**177,859**	**5.8%**	133,402	6.2%	44,457	33.3%
Total	**3,102,476**	**100.0%**	2,134,522	100.0%	967,954	45.3%

Gross profit

During the Reporting Period, the Group recorded gross profit of approximately RMB1,176,371,000, representing an increase of approximately 39.4% as compared to approximately RMB844,104,000 for the year ended 31 December 2020, and a gross profit margin of approximately 27.5%, representing a decrease of approximately 0.8% as from approximately 28.3% in 2020.

The gross profit and gross profit margin of each downstream industry are as follows:

Gross profit by end application	For the year ended 31 December 2021 RMB'000	2021 Proportion	2020 RMB'000	2020 Proportion	Increase/ (decrease) RMB'000	Year-on-year change
Electronic chemical	**108,359**	**24.5%**	17,679	25.2%	90,680	-0.7%
Chemical	**413,645**	**24.8%**	296,530	28.9%	117,115	-4.1%
Daily chemical	**35,791**	**22.7%**	97,880	33.2%	(62,089)	-10.5%
Raw materials of power battery*	**86,975**	**33.3%**	121,458	31.2%	(34,483)	2.1%
Oil and gas	**62,855**	**24.3%**	48,267	22.8%	14,588	1.5%
Pharmaceutical	**402,978**	**30.9%**	172,674	22.4%	230,304	8.5%
Others	**65,768**	**35.3%**	89,616	40.8%	(23,848)	-5.5%
Total	**1,176,371**	**27.5%**	844,104	28.3%	332,267	-0.8%

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

Electronic chemical

The gross profit of the Group's electronic chemical industry increased by approximately RMB90,680,000 from approximately RMB17,679,000 for the year ended 31 December 2020 to approximately RMB108,359,000 for the year ended 31 December 2021. The gross profit margin remained relatively stable during 2021 and 2020.

Chemical

The gross profit of the chemical industry of the Group increased by approximately RMB117,115,000 from approximately RMB296,530,000 for the year ended 31 December 2020 to approximately RMB413,645,000 for the year ended 31 December 2021. The gross profit margin decreased from approximately 28.9% for the year ended 31 December 2020 to approximately 24.8% for the year ended 31 December 2021. The decrease in gross profit margin was mainly due to the fact that the Group undertook certain projects with relatively lower gross profit to secure new customers during the year and incurred additional costs in some special processing techniques of special materials.

Daily chemical

The gross profit of the Group's daily chemical industry decreased by approximately RMB62,089,000 from approximately RMB97,880,000 for the year ended 31 December 2020 to approximately RMB35,791,000 for the year ended 31 December 2021. The gross profit margin decreased from approximately 33.2% for the year ended 31 December 2020 to approximately 22.7% for the year ended 31 December 2021. The decrease in gross profit margin was mainly due to the increase in costs as a result of the prolonged execution cycle after the resumption of suspended projects during the year and the increase in ocean freight price in the first half of the year.

Raw materials of power battery

The gross profit of the Group's raw materials of power battery industry decreased by approximately RMB34,483,000 from approximately RMB121,458,000 for the year ended 31 December 2020 to approximately RMB86,975,000 for the year ended 31 December 2021. The gross profit margin increased from approximately 31.2% for the year ended 31 December 2020 to approximately 33.3% for the year. The increase in gross profit margin was mainly due to the enhanced cost control of the Group with its extensive production experience of mature products.

Oil and gas

The gross profit of the Group's oil and gas industry increased by approximately RMB14,588,000 from approximately RMB48,267,000 for the year ended 31 December 2020 to approximately RMB62,855,000 for the year ended 31 December 2021. The gross profit margin increased from approximately 22.8% for the year ended 31 December 2020 to approximately 24.3% for the year ended 31 December 2021. The increase in gross profit margin was mainly because the projects undertaken during the year included core thick-wall equipment that required special qualification and certification, with complex techniques and high production difficulties, which generated higher gross profit.

Pharmaceutical

The gross profit of the Group's pharmaceutical industry increased by approximately RMB230,304,000 from approximately RMB172,674,000 for the year ended 31 December 2020 to approximately RMB402,978,000 for the year ended 31 December 2021. The gross profit margin increased from approximately 22.4% for the year ended 31 December 2020 to approximately 30.9% for the year ended 31 December 2021. The increase in gross profit margin was mainly because the Group undertook certain high value-added reaction systems with complex processes and the further promoted modular production during the year, including the first mRNA factory in PRC and products including a number of large volume (20,000L) bioreactors customised for international leading CDMO which improved the gross profit level.

Other income/(loss)

The Group recorded other income of approximately RMB4,832,000 for the year ended 31 December 2021 while there was a loss of approximately RMB16,797,000 for the year ended 31 December 2020 which was mainly due to the decrease in net foreign exchange losses.

Selling and marketing expenses

The Group's selling and marketing expenses primarily consist of salaries and benefits paid to its sales and marketing staff, commissions, customer service fees, travel expenses and marketing and promotion expenses, which increased by approximately RMB33,397,000 from approximately RMB73,110,000 for the year ended 31 December 2020 to approximately RMB106,507,000 for the year ended 31 December 2021. Selling and marketing expenses accounted for approximately 2.5% of the Group's total revenue for the year ended 31 December 2021, which remained stable as compared to the year ended 31 December 2020. The increase in selling and marketing expenses was mainly due to (1) the increase in the headcounts of sales and marketing personnel in line with the expansion of business scale; (2) the increase in marketing and promotion expenses; and (3) the increase in commission fees paid to third parties for exploring new areas and new customers.

General and administrative expenses

The Group's administrative expenses primarily consist of salaries and benefits paid to management and administrative staff, office expenses and consulting fees. Administrative expenses of the Group increased by approximately RMB97,467,000 from approximately RMB277,153,000 for the year ended 31 December 2020 to approximately RMB374,620,000 for the year ended 31 December 2021. General and administrative expenses accounted for approximately 8.8% of the total revenue of the Group for the year ended 31 December 2021, representing a decrease of approximately 0.5% as compared to approximately 9.3% for the year ended 31 December 2020. The increase in administrative expenses was mainly due to (1) the increase in share-based payment expenses of approximately RMB30,716,000 as the equity-settled share-based incentive scheme was adopted on 1 July 2020; (2) the increase in salary and benefit expenses due to the increase in headcounts of management and administrative personnel along with the expansion of business scale, coupled by the normal payment of social insurance fee in 2021. Such fee was reduced by the government in 2020 due to the COVID-19 pandemic; (3) the increase in depreciation and amortisation expenses due to the continuous increase in long-term asset investment; (4) the increase in travelling and entertainment expenses due to business growth; and (5) the continuous improvement of compliance level after the listing of the Company's Shares on the Main Board of the Stock Exchange on 28 June 2021, resulting in an increase in consulting fees and professional service fees.

Research and development expenses

The Group's research and development expenses increased significantly by approximately RMB100,849,000 from approximately RMB125,779,000 for the year ended 31 December 2020 to approximately RMB226,628,000 for the year ended 31 December 2021. Research and development expenses accounted for approximately 5.3% of the Group's total revenue for the year ended 31 December 2021, representing an increase of approximately 1.1% as compared to approximately 4.2% for the year ended 31 December 2020. The increase was primarily due to the Group's increased investment in the research and development of new products and new technologies in the raw materials of power battery and biopharmaceutical industries, as well as the strengthening of school-enterprise joint development.

Finance costs

The Group's finance costs increased by approximately RMB10,333,000 from approximately RMB12,456,000 for the year ended 31 December 2020 to approximately RMB22,789,000 for the year ended 31 December 2021. The increase in finance costs was mainly due to the interest incurred from the new bank loans after May 2020.

Income tax expenses

Income tax expenses increased by approximately RMB15,227,000 from approximately RMB52,045,000 for the year ended 31 December 2020 to approximately RMB67,272,000 for the year ended 31 December 2021. For the year ended 31 December 2021, the effective tax rate of the income tax was 15.0%, representing a decrease of approximately 0.2% from approximately 15.2% for the year ended 31 December 2020. The Group derived its profit mainly from two domestic high-tech enterprises and enjoyed a preferential enterprise income tax rate of 15%.

Profit for the year

By reasons of the foregoing, the Group recorded profit of approximately RMB380,552,000 for the year ended 31 December 2021, representing an increase of approximately RMB91,167,000 from approximately RMB289,385,000 for the year ended 31 December 2020, which was mainly due to the significant increase in revenue as a result of the expansion of business scale, partially offset by (1) the increase in share-based payment expenses of approximately RMB30,716,000; (2) increased investment in research and development, resulting in an increase in research and development expenses of approximately RMB100,849,000; and (3) the once-off social insurance reduction and exemption of approximately RMB35,766,000 granted by the government due to the COVID-19 pandemic in 2020 and no such grants for 2021.

Non-Hong Kong Financial Reporting Standards ("HKFRS") Measures

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

EBITDA and adjusted EBITDA

EBITDA for the year ended 31 December 2021 amounted to approximately RMB563,542,000, representing an increase of approximately RMB132,987,000 or approximately 30.9% from approximately RMB430,555,000 for the year ended 31 December 2020. Excluding the listing expenses and share-based payments, and excluding the impact of social insurance reduction and exemption in 2020, the adjusted EBITDA for the year ended 31 December 2021 was approximately RMB652,147,000, representing an increase of approximately RMB201,121,000 or approximately 44.6% from approximately RMB451,026,000 for the year ended 31 December 2020.

	For the year ended 31 December 2021 RMB'000	2020 RMB'000
Profit for the year	**380,552**	289,385
Add: Income tax expenses	**67,272**	52,045
Finance costs	**22,789**	12,456
Depreciation	**79,260**	70,544
Amortisation	**13,669**	6,125
EBITDA	**563,542**	430,555
Add: Share-based payments	**67,551**	36,835
Listing expense	**21,054**	19,402
Less: Social insurance reduction and exemption	**—**	35,766
Adjusted EBITDA	**652,147**	451,026

Trade and other receivables

The Group's trade and other receivables increased by approximately 58.4% from approximately RMB578,858,000 as at 31 December 2020 to approximately RMB916,679,000 as at 31 December 2021, which was mainly due to (1) the increase in trade receivables as a result of the increase in revenue; (2) the increased bills receivable due to the use of bank acceptance bills by certain customers; and (3) an increase in prepayments as the purchase of raw materials for more orders on hand.

Contract assets

The Group's contract assets increased by approximately 147.7% from approximately RMB246,061,000 as at 31 December 2020 to approximately RMB609,515,000 as at 31 December 2021, which was mainly due to the significant increase in sales orders entered into during the year, of which certain orders with large sum have been partially recognised as revenue, but have yet to reach the agreed time of cash collection.

Inventories

The Group's inventories increased by approximately 52.9% from approximately RMB804,069,000 as at 31 December 2020 to approximately RMB1,229,633,000 as at 31 December 2021, of which work in progress increased by approximately RMB364,449,000 and raw materials increased by approximately RMB61,115,000. The increase was mainly due to (1) the preparation of raw materials for orders newly entered into; and (2) the expansion in business scale which led to a significant increase in orders under production.

Trade and other payables

The Group's trade and other payables increased by approximately 49.8% from approximately RMB724,551,000 as at 31 December 2020 to approximately RMB1,085,560,000 as at 31 December 2021, which was mainly due to (1) the increase in trade payables as a result of the increase in purchase volume; and (2) the request by some suppliers to pay by bank acceptance bills, resulting in an increase in the balance of bills payables.

Contract liabilities

The Group's contract liabilities increased by approximately 157.7% from approximately RMB842,649,000 as at 31 December 2020 to approximately RMB2,171,901,000 as at 31 December 2021, mainly due to (1) the significant increase in sales orders entered into during the year and the management's efforts to strictly require advance payments for projects; and (2) the increase in the proportion of prepayments by certain customers who entered into bulk orders with the Group.

Borrowings and gearing ratio

The total borrowings of the Group decreased from approximately RMB443,532,000 as at 31 December 2020 to approximately RMB370,002,000 as at 31 December 2021. As at 31 December 2021, all borrowings were at fixed interest rates and were bank borrowings denominated in RMB.

Gearing ratio is calculated by dividing interest-bearing borrowings by total equity. The Group's gearing ratio decreased from approximately 44.4% as at 31 December 2020 to approximately 18.4% as at 31 December 2021, primarily due to the increase in share capital as a result of the listing of the Company's Shares on the Stock Exchange on 28 June 2021 and the increase in reserves as a result of the earnings during the Reporting Period.

Liquidity and capital resources

The Shares were successfully listed on the Main Board of the Stock Exchange on 28 June 2021. As at 31 December 2021, the balance of cash and cash equivalents of the Group was approximately RMB1,545,079,000, as compared to approximately RMB424,428,000 as at 31 December 2020. The increase was mainly due to the increase in cash generated from operating activities and the net proceeds from the global offering of the Shares.

The liquidity of the Group mainly includes cash generated from operating activities, proceeds from the share offer and 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.

The Group had total bank facilities of RMB499,761,000, USD108,000,000, SEK300,000,000 and JPY18,400,000,000 (aggregately equivalent to RMB2,419,473,000), used bank facilities of RMB870,533,000, USD57,046,000 and EUR18,762,000 (aggregately equivalent to RMB1,369,695,000), and had unused available bank facilities of equivalently RMB1,049,778,000.

Contingent liabilities and guarantees

As at 31 December 2021, the Group did not have any material contingent liabilities or guarantees.

Important events after the Reporting Period

On 5 January 2022, an aggregate of 29,459,700 restricted share units were granted to 149 employees who receive and agree to accept an award of restricted share units under restricted share unit scheme ("**Grantees**") at nil consideration. The Grantees are existing employees of the Group. The grant of an aggregate of 29,459,700 restricted share units to the Grantees shall be satisfied by (i) allotting and issuing new Shares to the trust at HKD4.17 per Share (to be held by the trustee to be appointed (the "**Trustee**") upon exercise); and/or (ii) directing and procuring the Trustee to receive existing Shares from any Shareholder or purchase existing Shares (whether on-market or otherwise). For further details, please refer to the Company's announcement dated 5 January 2022.

On 17 January 2022, the Group set up a new subsidiary, Morimatsu Biotechnology. The Company holds 78.83% shares indirectly and has control over Morimatsu Biotechnology. The register capital of Morimatsu Biotechnology is RMB8,975,000 and the primary activity is research and development of biochemical technology. A capital contribution of RMB250,000 has been injected into Morimatsu Biotechnology.

On 28 February 2022, Pharmadule Morimatsu AB (a direct wholly-owned subsidiary of the Company) and Morimatsu Industry Co., Ltd entered into a share acquisition agreement, Morimatsu Industry Co., Ltd agreed to sell, and Pharmadule Morimatsu AB agreed to acquire entire issued shares of common stock of Morimatsu Houston Corporation, for a total consideration of USD1,295,000 (equivalent to approximately HKD10,101,000). For further details, please refer to the Company's announcement dated 28 February 2022.

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

PRINCIPAL BUSINESS

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

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

BUSINESS REVIEW

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

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

PERMITTED INDEMNITY PROVISION

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

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

None of the Directors has waived or agreed to waive any remuneration during the year ended 31 December 2021.

CHANGES IN INFORMATION OF DIRECTORS

On 26 September 2021, Mr. Tang Weihua, an executive Director, was appointed as the general manager of Morimatsu (Suzhou) LifeScience. On 17 January 2022, he was appointed as the chairman of Morimatsu Biotechnology.

On 19 November 2021, Mr. Sheng Ye, an executive Director, was appointed as the general manager of Morimatsu Engineering Technology and the chairman at the same time.

Ms. Chan Yuen Sau Kelly, an independent non-executive Director, ceased to be the president of the Association of Women Accountants (Hong Kong) Ltd. with effect from 30 September 2021 but remains as its council members.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2021, none of the Directors or their respective associates (as defined in the Listing Rules) had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

DEED OF NON-COMPETITION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Each of Morimatsu Holdings Co., Ltd., Morimatsu Industry Co., Ltd., Matsuhisa Terumoto and Matsuhisa Hiroyuki (the "**Covenantors**") has provided an annual confirmation to the Company regarding their compliance with the Deed of Non-Competition for the year ended 31 December 2021. The independent non-executive Directors have reviewed their respective compliance with the Deed of Non-Competition, evaluated its effective implementation and were satisfied with the Covenantors' compliance with the Deed of Non-Competition for the year ended 31 December 2021.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had a total of 3,211 employees, among which more than 400 are research and development personnels, accounting for more than 10% of the total number of employees. The Group has a comprehensive remuneration and welfare system and an effective performance appraisal system as required by laws, and determines the remuneration of employees based on their positions and performance. The Group's remuneration policies seek to provide fair market remuneration in form and value to attract, retain and motivate high quality staff. Remuneration packages are set at comparable and competitive levels with other companies in the industry and the market to compete for a similar talent pool.

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

The Company has also adopted a Pre-IPO Share Option Scheme, a Post-IPO Share Option Scheme and a RSU Scheme. The specific details of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are set out in the sections headed "Pre-IPO Share Option Scheme" and "Post-IPO Share Option Scheme" below. For further details of RSU Scheme, please refer to the Company's announcements dated 15 December 2021 and 5 January 2022.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year are set out in note 29 to the consolidated financial statements in this annual report.

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

CONTINUING CONNECTED TRANSACTIONS

Partially-exempt Continuing Connected Transactions

Lease of Shanghai production base from Morimatsu Chemical Equipment

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

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

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

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

The annual cap of such continuing connected transactions for 2021 was RMB54,300,000, and the actual rent (tax inclusive) for 2021 was approximately RMB53,724,000. Set forth below is the actual transaction amounts during the Reporting Period:

Lessee	Lease commencement date	Lease term	Leased area (sq.m.)	Monthly rent (tax inclusive)	Annual rent (tax inclusive)
Morimatsu China	1 January 2021	1 year	828.32	111,053	1,332,634
Morimatsu Heavy Industry	1 January 2021	1 year	28,427.15	2,247,806	26,973,677
Office buildings			5,659.98		
Production workshops			22,767.17		
Morimatsu Pharmaceutical	1 January 2021	1 year	27,022.19	2,118,165	25,417,983
Office buildings			5,110.15		
Production workshops			21,912.04		
Subtotal			56,277.66	4,477,024	53,724,294

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

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

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

(ii) on normal commercial terms or better; and

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

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

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

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

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

RISK MANAGEMENT

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

Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Credit risk

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

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

Trade risks in sanctioned countries/regions

During the year ended 31 December 2021, some of the Group's products were mainly sold and/or delivered on FOB or shipper basis to certain countries/regions subject to International Sanctions, namely, Greece, Turkey, Egypt, Iraq and Russia. For the year ended 31 December 2021, revenue from products sold and/or delivered to countries/regions subject to International Sanctions amounted to approximately RMB33.2 million (2020: approximately RMB74.5 million), representing approximately 0.77% of the Group's total revenue (2020: approximately 2.5%).

The Group did not use the net proceeds from the global offering, as well as any other funds raised through the Stock Exchange and would not enter into any transaction, whether directly or indirectly, to finance or facilitate any activities or business with, or for the benefit of, any sanctioned countries or any other governments, individuals or entities sanctioned by the United States, the European Union, Australia or the United Nations or any activities or business that violate the sanctions imposed by the United States, the European Union, Australia or the United Nations. The Group had not been notified of any International Sanctions that would be imposed on the Group for sales and/or deliveries to the countries/regions subject to International Sanctions for the year ended 31 December 2021, and the Group is not aware of any International Sanctions that would arise if the Group were to sell and/or deliver products to countries/regions subject to International Sanctions. Although the Directors do not expect any material increase in the sales or delivery of the Group's products to these countries/regions, the Group expects to continue to sell and/or deliver its products to those countries/regions subject to International Sanctions.

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

IMPACT OF THE COVID-19 PANDEMIC

2021 is the second year of the global outbreak of the COVID-19 pandemic. The world economy is still facing a significant impact, especially a series of issues such as different travel restrictions, strict quarantine measures and high infection rates, which have a significant impact on the economic activities of specific countries and regions. During the Reporting Period, the Group leveraged on the Internet-based remote technology (such as remote visits, remote review and remote conference) to maintain interaction with domestic and overseas customers, and facilitated the normal operation of overseas projects under construction.

During the Reporting Period, the Group relied on its well-developed biopharmaceutical engineering and core bioreactor technology and market reputation to obtain some business orders related to the COVID-19 vaccine, some of which have been delivered smoothly.

In parallel, the COVID-19 pandemic has drawn the attention of different stakeholders of the domestic and foreign markets and communities on the biopharmaceutical products and their subsequent development trend. Therefore, the Group expects that the development of biopharmaceutical industry will present rapid, stable and sustainable characteristics with timely technological innovations on an ongoing basis. Various subfields related to COVID-19 vaccine, such as nucleic acid platform multiplexed, polyvalent antibodies, pancreatic, blood products (e.g. recap albumin), will show strong development vitality.

The Group also expects that the continuity of the COVID-19 pandemic will have certain impact on our business operation in the future. Therefore, the Group will continue to pay attention to the impact of the pandemic to the global market and get well-prepared. At the same time, it may take necessary measures to deal with various situations and challenges.

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

Non-independent Directors of the Company have been granted share options as described in the section headed "Pre-IPO Share Option Scheme" below.

Save as disclosed above, as at 31 December 2021, none of the Directors, supervisors, senior management of the Company and their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

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

As at 31 December 2021, to the best knowledge of the Directors and chief executives of the Company, the interests and short positions of substantial Shareholders and other persons (excluding the Directors, supervisors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of major shareholders	Capacity	Number of Shareholdings	Approximate percentage (%) of all issued shares[2]
Morimatsu Industry Co., Ltd. ("**Morimatsu Industry**")	Beneficial owner	750,000,000 (L)[1]	72.29%
Morimatsu Holdings Co., Ltd. ("**Morimatsu Holdings**")[3]	Interest in a controlled corporation	750,000,000 (L)	72.29%
Mr. Matsuhisa Terumoto[4]	Interest in a controlled corporation	750,000,000 (L)	72.29%
	Beneficial owner	16,810,000 (L)	1.62%

Notes:

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

2 The percentage is calculated based on the total number of 1,037,500,000 ordinary Shares issued after the Company exercised the Over-allotment Option in full on 15 July 2021.

3 Morimatsu Industry is wholly owned by Morimatsu Holdings. Mr. Matsuhisa Terumoto holds 80% of the voting shares of Morimatsu Holdings, and is therefore deemed to be interested in the Shares held by Morimatsu Industry.

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

Save as disclosed above, to the knowledge of the Directors and chief executives, as at 31 December 2021, there is no other person (excluding Directors, supervisors and chief executives of the Company or their respective associates) has interests or short positions as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO in the Shares and underlying Shares.

PRE-IPO SHARE OPTION SCHEME

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

(a) Purpose

The purpose of the Pre-IPO Share Option Scheme is to provide incentive or reward to employees, Directors (being members of the Board who are not employees) for their contribution to, and continuing efforts to promote the interests of, the Company and for such other purposes as the Board may approve from time to time.

(b) Maximum number of Shares to be allotted

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 132,380,000 Shares, representing approximately 12.76% of the issued share capital of the Company as at 31 December 2021.

(c) Subscription price

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

(d) Exercise period

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

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

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

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

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

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

(e) Term

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

(f) Right to cancel options

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

Outstanding share options

The table below shows details of the outstanding options granted to all grantees under the Pre-IPO Share Option Scheme as at 31 December 2021. For further details of the share options, please refer to note 25 to the financial statements.

Grantees	Position	Number of related Shares	Approximate percentage of total number of share options granted	Approximate percentage of the issued share capital as at 31 December 2021
DIRECTORS				
Matsuhisa Terumoto	Chairman and Non-executive Director	16,810,000	12.70%	1.62%
Nishimatsu Koei	Chief Executive Officer and Executive Director	11,315,000	8.55%	1.09%
Kawashima Hirotaka	Executive Director	3,960,000	2.99%	0.38%
Hirazawa Jungo	Chief Financial Officer and Executive Director	3,400,000	2.57%	0.33%
Tang Weihua	Executive Director	7,920,000	5.98%	0.76%
Sheng Ye	Executive Director	7,920,000	5.98%	0.76%
Subtotal		51,325,000	38.77%	4.95%
Associates of Directors of the Company or its subsidiaries				
Matsuhisa Hideo		4,200,000	3.17%	0.40%
Other 20 employees		76,855,000	58.06%	7.41%
Total		132,380,000	100.00%	12.76%

POST-IPO SHARE OPTION SCHEME

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

(a) Purpose

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

(b) Eligibility of Participants

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

(c) Maximum number of Shares

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

(ii) Subject to paragraphs (c) (i), (iv) and (v), at the time of adoption by our Company of the Post-IPO Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Schemes**") of our Company must not in aggregate exceed 10% of the total number of the Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**").

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) Price of Shares

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

(f) Granting options to related persons

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

(g) Restrictions on the time of grant of options

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

(h) Time of exercise of option

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

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

No option has been granted or agreed to be granted by the Company under the Post-IPO Share Option Scheme during the period from the Listing Date to 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the Group's sales to its five largest customers accounted for approximately 28.8% of the Group's total revenue and sales to the Group's largest customer accounted for approximately 12.5% of the Group's total revenue.

For the year ended 31 December 2021, the five largest suppliers of the Group accounted for approximately 18.3% of the Group's total purchases and the largest supplier of the Group accounted for approximately 5.0% of the Group's total purchases.

None of the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers during the year ended 31 December 2021.

MANAGEMENT CONTRACTS

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

RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income of this annual report.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements in this annual report.

RESERVE

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements in this annual report.

Details of the Company's reserves available for distribution to the Shareholders as at 31 December 2021 are set out in note 26 "Reserves" to the consolidated financial statements of this annual report.

DONATION

During the Reporting Period, the Group made charitable and other donations amounting to approximately RMB1,960,000.

PROPERTY, PLANT AND EQUIPMENT

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

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

Purposes	Allocation of actual Net Proceeds raised HKD'000	Allocation of actual Net Proceeds raised RMB'000	Percentage of total amount of the Net Proceeds allocated	Utilised Net Proceeds during the Reporting Period RMB'000	Unutilised Net Proceeds as at 31 December 2021 RMB'000	Expected timeline for the usage of the remaining Net Proceeds	Illustration
Improving production capacity and modular manufacturing capability	412,014	342,957	60.0%	131,102	211,855	By the end of 2023	Note 1
Improve and expand service and digital service capabilities	90,679	75,481	13.2%	—	75,481	By the end of 2023	
Continue to implement internationalization strategy	82,436	68,619	12.0%	13,948	54,671	By the end of 2023	Note 2
Investment in underlying research and development from 2021 to 2023	32,974	27,448	4.8%	2,943	24,505	By the end of 2022	
General working capital	68,587	57,091	10.0%	54,671	2,420	By the end of 2022	
Subtotal	686,690	571,596		202,664	368,932		

Note 1: One heavy machinery processing workshop, one heavy equipment assemble workshop and two modules assemble workshops newly built at Nantong production base by the Group has commenced construction in 2021 in order to increase production capacity. The Group has used the Net Proceeds to pay for part of the construction cost of the workshops. In addition, the equipment procurement contracts relating to a new batch of core equipment have been entered into as planned in 2021 with partial payment settled. In September 2021, the Group established Morimatsu (Suzhou) LifeScience in Changshu, Suzhou, which is adjacent to the production base in Nantong. The Changshu Economic and Technological Development Zone Management Committee provides the Group with construction land in two phases by way of land use right transfer. The first phase of the project has a site area of approximately 130,000 sq.m., the land acquisition of which is planned to be completed in April 2022. In the second half of 2022, the workshops 1#2# for the project will commence construction. The unutilized Net Proceeds as at 31 December 2021 will continue to be used to improve production capacity and modular manufacturing capacity.

Note 2: A subsidiary of the Group and Dialog Fabricators Sdn. Bhd. jointly established Morimatsu Dialog (Malaysia) Sdn. Bhd. in September 2021. The joint venture is located in Malaysia and the capital injection has been completed in 2021. In 2021, the Group recruited several experts and engineers from different fields in Japan to push forward the construction of the Japan Engineering Center. Its subsidiary in Italy is at the stage of preparation, the Group will continue to invest in it according to the original intended uses of the Net Proceeds, so as to enhance the brand awareness of the Group in the middle and south Europe, establish the pool of outstanding talents and engineering teams, and expand product offering and services.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Post-IPO Share Option Scheme" above and the announcement of the Company dated 15 December 2021 in respect to the adoption of the RSU Scheme, no equity-linked agreements were entered into by the Company, or existed during the Reporting Period.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Thursday, 16 June 2022. 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 Monday, 13 June 2022 to Thursday, 16 June 2022, 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 Level 54, Hopewell Centre, No. 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 June 2022.

CORPORATE GOVERNANCE

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

SUFFICIENCY OF PUBLIC FLOAT

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

TAX RELIEF AND EXEMPTION

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

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its subsidiaries during the Reporting Period are set out in note 20 to the consolidated financial statements in this annual report.

MATERIAL LITIGATIONS AND ARBITRATION MATTERS

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

PRE-EMPTIVE RIGHTS

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

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2021. A resolution for the re-appointment of KPMG as the auditor of the Company will be proposed for Shareholders' approval at the forthcoming AGM.

On behalf of the Board

Nishimatsu Koei
Chief executive officer and executive Director

Hong Kong, 25 March 2022

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiry to all Directors, they have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2021.

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

THE BOARD

The Board of the Company currently comprises the following Directors:

Executive Directors

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

Non-Executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

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

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

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

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

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

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

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

The Company was listed on the Main Board of the Stock Exchange on 28 June 2021. During the period from the Listing Date to 31 December 2021, the Board (including its committees) held four meetings in total, with active participation of all Directors either in person or through electronic means of communication. The attendance record of the Directors is as follows:

Name of Director	Attendance
Mr. Nishimatsu Koei	2/4
Mr. Hirazawa Jungo	2/4
Mr. Tang Weihua	2/4
Mr. Sheng Ye	2/4
Mr. Kawashima Hirotaka	2/4
Mr. Matsuhisa Terumoto	4/4
Ms. Chan Yuen Sau Kelly	4/4
Mr. Kanno Shinichiro	4/4
Mr. Yu Jianguo	2/4

Since the Listing Date and up to 31 December 2021, no general meeting of the Company was held.

During the period from the Listing Date to 31 December 2021, apart from the Board meetings, consents and/or approvals from the Board were obtained by way of written resolutions on a number of matters/transactions.

RESPONSIBILITIES, ACCOUNTABILITY AND CONTRIBUTIONS OF THE BOARD AND THE MANAGEMENT

The Board oversees the management of the business and affairs of the Company. The Directors are responsible for making decisions objectively in the interests of the Shareholders as a whole.

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation.

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

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

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

DIRECTORS' CONTINUOUS DEVELOPMENT

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Pursuant to the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) or such higher number of Directors as may be determined by the Board shall retire from office by rotation.

In accordance with the Articles of Association, each Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years at the AGM of the Company and a retiring Director shall be eligible for re-election.

COMMITTEES UNDER THE BOARD

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing specific aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

AUDIT COMMITTEE

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

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

The Audit Committee held two meetings during the year ended 31 December 2021 to review the interim financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works.

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

Name of members of the Audit Committee	Attendance
Mr. Matsuhisa Terumoto	2/2
Ms. Chan Yuen Sau Kelly	2/2
Mr. Kanno Shinichiro	2/2

REMUNERATION COMMITTEE

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

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

As the Shares were listed on the Stock Exchange on 28 June 2021, the Remuneration Committee did not have any matters that are required to be disclosed for the period from the Listing Date to 31 December 2021 (i.e. less than seven months), and therefore did not hold any meetings during the relevant period. The Remuneration Committee will fully comply with its terms of reference.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

Remuneration band (RMB)	Number of people
RMB2,500,001 to RMB3,000,000	1
RMB7,500,001 to RMB8,000,000	1

NOMINATION COMMITTEE

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

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

As the Shares were listed on the Stock Exchange on 28 June 2021, the Nomination Committee did not have any matters that are required to be disclosed for the period from the Listing Date to 31 December 2021 (i.e. less than seven months) and therefore did not hold any meetings during the relevant period. The Nomination Committee will fully comply with its terms of reference.

NOMINATION POLICY

The Board has adopted a nomination policy.

Purpose

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

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

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

Selection Criteria

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

   (i) character and integrity;

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

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

   (iv) commitment in respect of available time and relevant interest;

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

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

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

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

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

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

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

Nomination Procedures

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

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

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

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

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

Re-election of Directors at General Meetings

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

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

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

Succession Planning

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

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy.

Vision

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

Policy Statement

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

Measurable Objectives

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

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

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

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2021 is set out below:

Service Category	Fees paid/payable RMB'000
Audit services	3,480
Non-audit services	673
– Tax services	390
– Other services	283
Total	4,153

JOINT COMPANY SECRETARIES

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

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

The joint company secretaries attended sufficient professional training as required under the Listing Rules for the year ended 31 December 2021 to update their skills and knowledge.

SHAREHOLDERS' RIGHTS

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

CONVENING EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

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

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

MAKE ENQUIRIES TO THE BOARD

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

Contact Information

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

Address: Unit 26B, 235 Wing Lok Street Trade Centre
No. 235 Wing Lok Street, Hong Kong,
(For the attention of the Board of Directors/Joint Company Secretaries)

E-mail: contact@morimatsu-online.com
ircontact@morimatsu-online.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers the effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through AGMs and other general meetings. Directors (or their representative as appropriate) will present at the AGMs to answer Shareholders' questions.

No amendments were made to the constitutional documents of the Company during the year ended 31 December 2021. The latest version of the constitutional documents is available on the websites of the Company and the Stock Exchange.

To facilitate effective communication, the Company has adopted a Shareholder communication policy which aims to establish mutual relationship and communication between the Company and its Shareholders and maintained a website (www.morimatsu-online.com). The Company publishes updates on its business operations and development, financial data, corporate governance practices and other information on the website for public access.

DIVIDEND POLICY

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

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

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

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

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

(d) future prospects of the Group;

(e) statutory and regulatory restrictions;

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

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

(h) Shareholders' interests; and

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The general managers of the Group's subsidiaries and the person in charge of each department/branches combine the Company's actual operation and external environment to organize and analyze risks from five aspects, namely strategy, finance, market, operation and legal, evaluate and discuss to identify significant risks, formulate and implement corresponding risk management strategies and solutions for the identified significant risks, summarize the risk management work for the current year, plan the risk management work for the following year, and continuously adjust the risk management related work according to the management needs with a dynamic approach.

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

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

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

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

Environmental, Social and Governance Report

ABOUT THE REPORT

ESG Governance Structure

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

The Group's control and management of ESG-related risks is carried out by members of the Board. On 14 September, 2020, Mr. Kawashima Hirotaka, an executive Director and a member of the Board, was appointed to plan, organize and oversee the ESG process to coordinate with various departments of the Company, including the procurement and manufacturing departments and the health, safety and environmental team. By assessing and evaluating ESG-related risks and performance reporting, the Group sets overall strategic objectives, monitors management effectiveness, and ensures reliable business operations and compliance with relevant legal and regulatory requirements.

This environmental, social and governance report collects qualitative information and quantitative data to demonstrate the Group's determination and relevant performance in achieving sustainable development.

Scope of Reporting

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

Reporting Period

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

Reporting Framework

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

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

This report has been reviewed and approved by the Board.

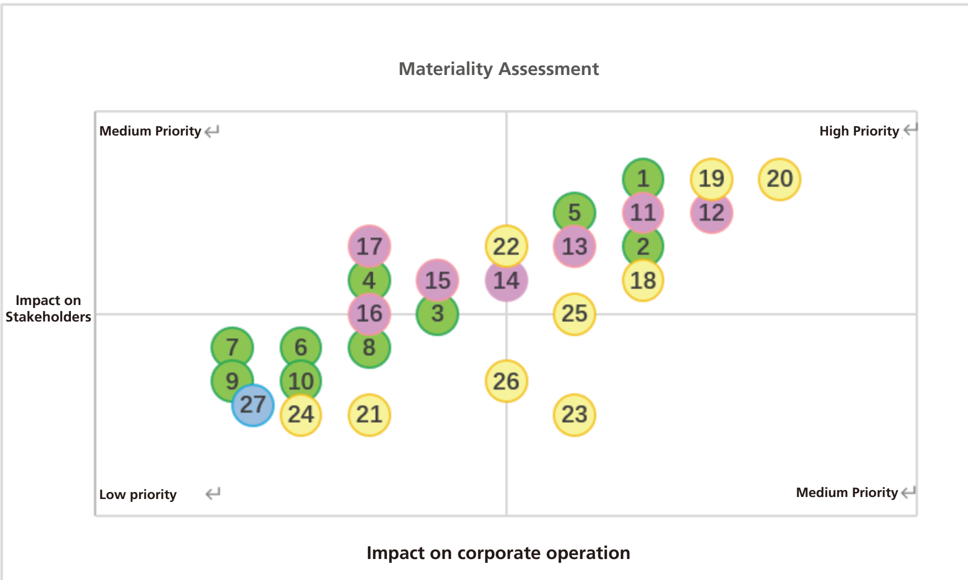
STAKEHOLDER ENGAGEMENT

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

	Government and regulatory authorities	Investors	Employees	Customers	Suppliers	Community
Communication channels and methods	• Dialogue with the local government • Submission of requested documents • Compliance inspection including those related to environmental protection • Participation in industry association activities and contribute corporate experience	• The Group's website • Annual reports and interim reports • Board meetings, general meetings, investor meetings • Direct communication with Shareholders	• General manager seminar • Industrial organization • Employee training • Employee activities • Feedback and OA Forum • Corporate publications • Performance evaluation of employees	• The Group's website • Visits • Customer satisfaction survey • Complaint hotline	• Selection review • Contract negotiation • Regular review • Daily business communication	• The Group's website • Community activities
Key actions	• Enforce national policies and comply with national laws and regulations • Accept supervision and inspection • Provides more job opportunities • Strictly controls the treatment of pollutants • Timely filing of tax returns	• Convenes regular general meetings • Convenes regular Board meetings • Convenes investors meetings • Make timely disclosure of statutory matters • Deepens product and technology innovation and continuously expands new business	• Protects the rights and interests of employees and enhance employee benefits • Improves the working environment of employees • Enhances employee health and safety related training and facility investment • Provides employees with better training related to career development and help them to improve their management and technical skills • Provide employees with a wide range of career development opportunities	• Continuously improves the quality of products and services • Timely feedbacks and handles customer complaints • Protects customer data and information	• Builds a communication platform for suppliers • Improves supplier selection mechanism • Establishes an open and transparent tendering mechanism • Provides equal opportunity for suppliers to compete • Improves supplier evaluation	• Participates in disaster relief • Commences employee volunteer activities • Provides financial assistance donations • Provides internship opportunities for university students • Charity donations

MATERIALITY ASSESSMENT

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



Environment

1. Waste water discharge
2. Waste gas emission
3. Dust emission
4. Noise emissions
5. Hazardous waste discharge
6. Non-hazardous waste discharge
7. GHG Emissions and climate change
8. Energy Consumption
9. Water resource consumption
10. Use of materials

Employment

11. Remuneration and benefits
12. Occupational health and safety
13. Employee development
14. Employee training
15. Employee care
16. Equal and no discriminatory working environment
17. Prohibition of child labour and forced labour

Operation

18. Product quality control system to ensure product health and safety
19. Customer service and complaint handling
20. Customer satisfaction
21. Advertising and labeling of products and services
22. Protection of customer data and information
23. Intellectual property rights
24. Anti-corruption and anti-bribery
25. An open and fair supplier selection and contract negotiation mechanism that incorporates social responsibility considerations
26. Regular assessment of suppliers

Community

27. Community investment

STAKEHOLDERS' FEEDBACK

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

ENVIRONMENTAL PERFORMANCE

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

Emissions Policies and Compliance

The Group has comprehensively identified and assessed the factors that may be involved in environmental impact. The Group has identified various factors that may have an impact on the environment in its production activities and daily office activities of its employees, and conducted risk assessment in five aspects, namely compliance with regulations, frequency of occurrence, scope of impact, degree of impact and community concern, and updated the assessment results annually. The Group has formulated management policies and regulations for different environmental impact factors, such as air pollution prevention and control, water pollution control, waste management and noise pollution prevention and control, and has clearly defined the control measures to be taken by each department to protect the ecological environment of the Group and the surrounding areas.

Waste water discharge

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

During the Reporting Period, the Group discharged approximately 600,236.78 cubic meters of wastewater and did not experience any cases of non-compliance with the effluent discharge standards.

Waste gas emission

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

Through the implementation of the above measures, during the Reporting Period, the Group's waste gas emission met the goal set by the Group, and there was no non-compliance of waste gas emissions. Among them, the actual emission of particulate matter was approximately 0.299 tonnes, the actual emission of nitrogen oxides was approximately 2.976 tonnes, the actual emission of sulphur dioxide was approximately 1.209 tonnes, the actual emission of benzene was approximately 0.004 tonnes, the actual emission of toluene was approximately 0.322 tonnes and the actual emission of xylene was approximately 0.113 tonnes.

Dust

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

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

Noise

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

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

Waste

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

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

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

- o Hazardous waste is collected by the designated responsible department, stored in special containers and placed in the dangerous goods storage areas.
- o Containers and sites for storing hazardous waste are equipped with corresponding labels and warning signs to achieve proper storage of various types of hazardous waste.
- o Contact qualified units to dispose of hazardous waste; the disposal department and the receiving department fill out the "Hazardous Waste Disposal Registration Form" (《危險廢棄物處置登記表》) according to the actual disposal situation, and strictly implement registration management for the disposal of hazardous waste.

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

- o For metal scrap, the Group sets up metal scrap hoppers in the production area to sort and collect metal scrap of different materials or models before sending them to designated storage areas for disposal.
- o For domestic garbage, the Group has set up various types of garbage bins in the office area, production area and living area of the plant for collecting dry, wet, recyclable and non-recyclable garbage, which will be cleaned and collected by the cleaning staff to the garbage room for disposal by qualified units.
- o For kitchen waste, the canteen contractor will contact a qualified unit for disposal.
- o For construction waste, the construction unit is responsible for cleaning and transporting it to the waste storage site.

During the Reporting Period, the Group generated and effectively disposed of 79.2 tons of hazardous waste and 3,965.61 tons of non-hazardous waste.

Greenhouse gas emissions

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

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

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

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

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

During the Reporting Period, the Group's emitted carbon dioxide has met the goal it set. The total carbon dioxide emitted was approximately 26,453.65 tonnes, of which carbon dioxide emission indirectly caused by energy was approximately 21,768.56 tonnes. (Note: The information is calculated based on the calculated energy consumption including electricity, natural gas, diesel and gasoline, and the carbon emission factors published in the "Guide to Calculating Greenhouse Gas Emissions from Energy Consumption" (《能源消耗引起的溫室氣體排放計算指南》) prepared by the World Energy Institute, but the information is only an estimate as the CO_2 emissions from fuel consumption are closely related to factors such as the composition of the oil and the performance of the engine.)

Use of Resources

The Group aims to reduce the environmental impact of its operations by finding and adopting ways to enhance the efficiency of using energy and resources. The Group is committed to incorporating the concepts of resource conservation and environmental protection into its business operations, and making efficient use of resources, reducing waste and controlling waste generation in its business and production processes to achieve resource optimization, promote environmental protection and reduce operating costs.

Electricity resources

The Group pays attention to the management of electricity consumption in daily operation and has set the goal of reducing energy consumption at the same time. In order to achieve such goal, the consumption reduction measures taken are as follows:

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

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

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

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

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

Water Resources

The Group does not face any issues in the shortage of water supply in its operations, nor does it have any difficulty in finding suitable water sources for its business operations. However, water conservation is becoming an increasingly important issue for the whole society. Therefore, the Group has set goal of reducing water resources consumption, and actively adopted the following initiatives to reduce consumption.

- The Group has renovated the drinking water facilities workshops, changing the water supply through the drinking fountain to direct water supply from the water room through the pipeline, eliminating the need to specifically clean and seal the water drums used in the loop. After the renovation, the Group can save approximately 80.3 tons of pure water for bucket cleaning per year.

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

Paper resources

For paper consumption in the office process, on the one hand, the Group controls the total amount of paper used through monthly statistics of paper consumption in each department to reduce waste. On the other hand, the Group promotes paperless office and electronic data delivery. During the Reporting Period, the Group saved approximately RMB162,524.9 through the implementation of electronic data delivery.

Packaging materials

The Group's products are mainly customized for customers, and the packaging materials used vary, mainly including wooden boxes, rain-proof cloth, iron pallets and wooden pallets. Nevertheless, the Group will reuse eligible and recyclable packaging materials in the course of business development.

Oil and gas sources

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

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

Category	Name	Consumption	Unit	Intensity	Intensity Unit
Water,electricity and gas	Water	666,929.76	Tons	177.31	tons/RMB million revenue
	Electricity	27,755.44	Thousands of kilowatt hours (Kwh)	7.05	Thousand kWh/RMB million revenue (including 4,553.66 thousand kWh of photovoltaic electricity)
	Natural Gas	1,996,607.21	m^3	531.28	m^3/RMB million revenue
Paper	Printing paper	59.66	Tons	0.02	tons/RMB million revenue
Packaging materials	Rain-proof cloth/bag	172107.792	sq.m.	13.98	sq.m./RMB million revenue
	Wooden board/ wooden box	23615.803	sq.m.	9.63	sq.m./RMB million revenue
	Wooden cubes/ wooden brackets	1286.91	m^3	5.78	m^3/RMB million revenue
	Iron saddle/frame	1411.52	Tons	1.78	tons/RMB million revenue
	Tray	6425.257	sq.m.		sq.m./RMB million revenue
	Drying agent	7259.75	kg		kg/RMB million revenue
	Packing Tape/Plywood Tape	3435	m		m/RMB million revenue
Fuel consumption	Petrol	67,511.89	Litre	0.09	litre/km
	Diesel	85,726.17	Litre	35.27	litre/RMB million revenue

Environmental and natural resources

The Group is not in a highly polluting industry, its production technology and processes do not involve significant pollution emissions and its business does not involve direct access to natural resources. However, the Group still attaches great importance to environmental protection and resource conservation, and focus on environmental protection-related investments. During the Reporting Period, the Group's environmental protection expenses were mainly related to three aspects: (1) environmental protection tax and emission fees of approximately RMB331,500; (2) environmental protection equipment and construction in progress of approximately RMB1,335,300; and (3) environmental protection-related external service fees of approximately RMB1,401,500.

Climate Change

The Group is committed in managing potential climate-related risks that may impact the Group's business activities. The increase in frequency and level of severity of extreme weather conditions such as typhoons, storms and rainstorms may damage the production facilities and expose the Group to the risk of reduced production capacity. In order to minimise potential risks and hazards, the Group adopts flexible working arrangements and preventive measures under severe or extreme weather conditions. In addition to that, the Group has not identified any climate-related issues that have or may have a direct and significant impact on the Group. The issue of climate change has become a hot topic and a common challenge for all mankind as a result of human greenhouse gas emissions. The Group is also actively contributing to the development of a low-carbon economy and making its contribution to the fight against global climate change.

SOCIAL PERFORMANCE

Employment Policy and Care for Employee

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

The Group strictly complies with the relevant employment laws and regulations in the places where it operates. To promote a quality and diverse team, the Group provides equal opportunities to its employees in recruitment, training and development, job promotion and remuneration and benefits. The Group has established regulations and systems such as the Employee Handbook, the Recruitment Management System and the Holiday Management System to promote important legal and professional ethics around employment, benefits and welfare, training and development, occupational health and safety and code of conduct guidelines, which help define the expectations of management and employees and provide protection against unfair or inconsistent treatment and discrimination at work. As at 31 December 2021, the total number of employees of the Group was 3,211 and the composition of employees is summarized in the table below.

Employment of active employees by age and gender:

Classification	30 and below	31–40	41–50	Over 50	Male	Female	Total number of employees
Age	938	1,458	589	226	/	/	3,211
Gender	/	/	/	/	2,693	518	3,211

Employment of active employees by region:

Classification	Shanghai	Jiangsu	Wuhan	Sweden	India	Japan	United States	Total number of employees
Region	1,902	1,148	105	10	19	25	2	3,211

Employment of active employees by employment type:

Classification	Permanent	Contract	Total number of employees
Employment type	3,065	146	3,211

During the Reporting Period, the Group has been upholding a people-oriented management philosophy and has launched various caring activities such as staff medical check-ups, mother and child care services, summer and winter care services, housekeeping services, caring vehicles, etc. Donations have been raised for employees in difficulties or suffering from illnesses. With the above, the Group demonstrated love and care to its employees from their work to their lives in hopes of increasing the satisfaction and sense of belonging of its employees. Nevertheless, due to the challenging and competitive recruitment and retention process in the industry, 463 employees left the Group's employ during the Reporting Period (the "**Former Employees**"), and the relevant information of the Former Employees is as follows:

Former Employees by age and gender:

Classification	30 and below	31–40	41–50	Over 50	Male	Female	Total number of employees
Age	210	205	30	18	/	/	463
Gender	/	/	/	/	395	68	463

Former Employees by region:

Classification	Shanghai	Jiangsu	Wuhan	Sweden	India	Japan	United States	Total number of employees
Region	265	174	11	5	7	1	0	463

Occupational health and safety policies and compliance

The Group is concerned about the well-being of its employees and is committed to providing a safe, healthy and secure working environment for them. The Group complies with the relevant occupational health and safety regulations in the regions in which it operates and regularly develops and provides instructions and training to its employees on health and safety issues. The Group provides employees with adequate and appropriate labor protective equipment and emergency equipment, arranges for employees to undergo induction medical examinations and annual medical examinations, and arranges occupational disease medical examinations for employees engaged in special types of work in accordance with the regulations, in an effort to reduce the occurrence of occupational diseases and work-related accidents.

During the Reporting Period, COVID-19 pandemic has been affecting the Group and its employees and the Group had to protect its employees and customers through more stringent infection prevention measures. The Group strictly complied with the safety regulations stipulated by the government to prevent the spread of the virus. The Group's human resources department provides a wealth of information to employees and encourages them to receive vaccinations for protection. The Group cared about the health of its employees, closely monitored their health status and provided adequate surgical masks and alcohol-free hand sanitizer in the workplace. The Group also arranged online business meetings for employees to prevent the spread of virus infection and outbreaks. Employees are also advised to wear masks and keep a social distance when meeting others in their local communities or working outdoors, and to avoid physical contact (e.g. hand shaking, hugging) and crowded areas.

During the Reporting Period, the Group had 22 work-related accidents, resulting in a total of 1,173 lost working days. The accidents were caused by (i) improperly secured or placed equipment or materials; (ii) failure to use proper tools; (iii) irregularities in operations not in accordance with the system; and (iv) failure to promptly address unsafe factors. These accidents mainly resulted in hand or foot injuries, fractures, and soft tissue injuries, etc. No employee passed away as a result of these accidents. In the past three years (including the Reporting Period), the Group did not experience work-related fatalities.

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

Human Capital Development and Training Policy

As a valuable asset of the enterprise, employees are vital to the growth and success of the enterprise. The Group has set up a dedicated department, the Training Center, to coordinate training resources, formulate annual training plans at the company level, and organize various forms of internal and external training. At the end of each year, the head of each department of the Group will formulate the training plan for the following year according to the business development needs and organize various training within the department.

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

The employee training data is as follows:

Employee Category	Gender	Percentage of employees trained	Average training hours
Employees engaged in production work	Male	100%	16.75 hours/person
	Female	100%	15.37 hours/person
Employees not engaged in production work	Male	100%	17.52 hours/person
	Female	100%	15.91 hours/person

Labour Practices and Compliance

The Group conducts staff recruitment in accordance with the principles of fairness, impartiality and openness in accordance with its development strategies and annual operation objectives, and selects talents suitable for the positions in terms of knowledge, moral character, ability, experience and so on. During the Reporting Period, the Group complied with the applicable laws and regulations relating to employment, child labour and forced labour practices in the regions in which it operates and there were no work stoppages, labour disputes, and incidents of child labour and forced labour.

Supply Chain Management

The Group has established strict selection and admission criteria for suppliers of raw materials and components, including qualifications, scale and facility standards, technical quality, product quality, price, delivery capability, labor conditions and employee relations, site management, environmental review and after-sales service, etc. The "Supplier Comprehensive Capability Evaluation Form" (《供應商綜合能力評審表》) is prepared and scored according to the scoring criteria. Only potential suppliers that meet our selection criteria are admitted into our qualified suppliers list. The Group has entered into framework agreements with some of our better-qualified suppliers and subcontractors to establish stable and long-term business relationships. The Group conducts annual appraisals of our key suppliers. The annual appraisals focus on the performance of these suppliers in terms of environmental protection, employee workplace, employee relations, labor protection, etc. For suppliers who fail to pass the annual assessment, the Group will give them a chance to rectify the situation and will organize a re-assessment after the suppliers have completed the rectification. If those suppliers fail to pass the re-assessment, the Group will remove them from the list of qualified suppliers.

As at 31 December 2021, the Group had approximately 1,024 suppliers related to production activities, of which approximately 930 were domestic suppliers and 94 were overseas suppliers. The domestic suppliers include 10 in Northeast China, 34 in North China, 823 in East China, 22 in South China, 14 in Central China, 13 in Northwest China and 14 in Southwest China. Overseas suppliers are located in 8 countries, which were Sweden, Switzerland, Germany, the United Kingdom, the United States, Canada, India, and Japan.

Product Responsibility

The Group's product quality control system has passed the ISO 9001:2015 standard certification, and at the same time, the Group has adopted the Plan-Do-Check-Act cycle as its management philosophy to continuously improve product quality and product quality control.

The products sold by the Group are all non-standard products customized by customers. Thanks to the continuous communication with customers during the design, construction and acceptance of projects, the Group did not have any recalls of sold or delivered products for safety and health reasons during the Reporting Period. The Group has set up an after-sales service department to receive complaints from customers and 7 complaints were received during the Reporting Period in relation to products and services. After receiving the complaints from customers, the after-sales service department worked with the relevant departments to discuss the substance of the problems, formulate solutions and implement rectification to ensure customer satisfaction. At the same time, the Group will determine the responsibility, identify the specific department responsible, formulate preventive and corrective measures, and provide training to relevant personnel to prevent the recurrence of the problem.

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

Data Protection and Privacy Policies

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

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

Protection of Intellectual Property Rights

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

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

Anti-corruption policies

The Group is committed to supporting its corporate values by adhering to the highest standards of business ethics, integrity and fairness in the management of all its businesses. In accordance with the Group's anti-corruption and anti-bribery management system, all Directors and employees must abide by ethical rules when engaging in the Group's business activities and must not request and receive benefits from, or offer benefits to, customers, contractors, suppliers or persons with whom the Group has business relationships. To prevent risks related to anti-corruption and anti-bribery, the Group has taken the following measures.

- The code of conduct for employees clearly includes the code of conduct related to anti-corruption and anti-bribery.
- Implement adequate financial controls and strictly comply with segregation of duties and authorization approval requirements for payment disbursements.
- Sign integrity agreement with employees, and employees are required to regularly report conflicts of interest such as external investment.
- Regularly conduct education and training on anti-corruption and anti-bribery to raise the awareness of anti-corruption and anti-bribery compliance among directors and employees.
- Conduct regular compliance checks on high-risk projects, activities, business partners, employees in specific positions, etc.
- Establish a whistleblowing policy and system to encourage employees, business partners and other stakeholders to report intended, suspected or actual acts of bribery in secret and anonymously to the Audit Committee (or any specific Committees with non-executive directors as majority) or dial the reporting hotline, and establish a reporting process and investigation mechanism.

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

Community investment

The Group actively participates in community construction and social welfare, and strives to build a harmonious relationship with the community to achieve the harmonious development of the enterprise and the community. During the Reporting Period, the Group donated RMB200,000 to the Education Development Foundation (教育發展基金會) of the East China University of Science and Technology (華東理工大學) for the cultivation of talents in the School of Mechanical and Power Engineering of the East China University of Science and Technology (華東理工大學機械與動力工程學院). The Group donated approximately RMB480,000 to Zhengzhou University (鄭州大學) for the fight against flooding in Henan Province and for the development of teaching. The Group donated RMB1.2 million to the Shanghai True Love Dream Charity Foundation (上海真愛夢想公益基金會) for the Rural Teacher Development Program (鄉村教師成長計劃), which is dedicated to improving the inequality of education in China. The Group donated RMB50,000 to the charity organization Joyful Help to Elderly Charity Fund (頤樂助老慈善基金) to subsidize the low-income elderly to improve their basic living environment. The Group also donated RMB30,000 to the Rudong County Charity Federation (如東縣慈善總會) to assist in the construction of rural infrastructure and improve the quality of life of farmers.

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

KEY PERFORMANCE INDEX ("KPI") REFERENCE TABLE

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

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Morimatsu International Holdings Company Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 95-178, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Revenue recognition

Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 119 to 121 (Note 1(u)).

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

KEY AUDIT MATTERS *(Continued)*

Revenue recognition *(Continued)*

Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 119 to 121 (Note 1(u)).

The Key Audit Matter	How the matter was addressed in our audit
For the sale of customised pressurised equipment that the Group does not have the right to be paid for work performed to date, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenue is recognised when the customer takes possession of and accepts the products. The progress towards complete satisfaction of a performance obligation is mainly measured based on cost-to-cost method, based on the proportion of the actual costs incurred relative to the estimated total costs. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there may be an incentive for management to advance or delay the timing of revenue recognition to the incorrect accounting period to meet performance expectations or targets. It is also because there are a variety of contract terms regarding the Group's sales of pressure equipment and provision of related service and the determination whether revenue should be recognised over time or at a point of time involves significant judgement, especially for the revenue recognized over time. In particular, for contracts which the Group has a right to be paid for work done to date the estimation of total costs to complete contracts is inherently subjective and requires significant management judgement and estimation.	— discussing with management the performance of the major contracts in progress which revenue was recognised over time during the year and challenging the key assumptions adopted in the forecast of contract costs, including estimated costs of completion, the recognition of variation orders and the adequacy of provision of onerous contracts, by comparing with contract agreements and sub-contracts, confirmations from and correspondence with customers regarding contract variations and claims; — obtaining a detailed breakdown of the total estimated costs to completion for major contracts in progress which revenue was recognised over time during the year and comparing, on a sample basis, actual costs incurred to-date and cost estimates to agreements, certifications or correspondence with subcontractors and suppliers and other documentation referred to by management in the assessment of the estimated costs to completion; — on sample basis, re-performing the calculation of the revenue recognised over time for the year ended 31 December 2021 based on the Group's revenue recognition policies;

KEY AUDIT MATTERS *(Continued)*

Revenue recognition *(Continued)*

Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 119 to 121 (Note 1(u)).

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

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 March 2022

Consolidated Statement of Profit or Loss

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	3	**4,278,847**	2,978,626
Cost of sales		**(3,102,476)**	(2,134,522)
Gross profit		**1,176,371**	844,104
Other income/(loss)	4	**4,832**	(16,797)
Selling and marketing expenses		**(106,507)**	(73,110)
General and administrative expenses		**(374,620)**	(277,153)
Research and development expenses		**(226,628)**	(125,779)
Impairment loss on trade receivables and contract assets	27(a)	**(2,803)**	2,621
Profit from operations		**470,645**	353,886
Finance costs	5(a)	**(22,789)**	(12,456)
Shares of results of joint venture		**(32)**	—
Profit before taxation	5	**447,824**	341,430
Income tax	6(a)	**(67,272)**	(52,045)
Profit for the year		**380,552**	289,385
Attributable to:			
Equity shareholders of the Company		**380,552**	289,385
Profit for the year		**380,552**	289,385
Earnings per share	9		
Basic (RMB)		**0.43**	0.39
Diluted (RMB)		**0.38**	0.39

The notes on pages 101 to 178 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Profit for the year		**380,552**	289,385
Other comprehensive income for the year			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of the Company		**(5,625)**	2,518
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland China		**(4,094)**	1,167
Other comprehensive income for the year		**(9,719)**	3,685
Total comprehensive income for the year		**370,833**	293,070
Attributable to:			
Equity shareholders of the Company		**370,833**	293,070
Total comprehensive income for the year		**370,833**	293,070

The notes on pages 101 to 178 form part of these financial statements.

Consolidated Statement of Financial Position

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	10	**1,226,951**	838,527
Right-of-use assets	11	**106,225**	107,851
Intangible assets	12	**33,702**	29,901
Interest in joint venture	14	**10,878**	—
Deferred tax assets	22(b)	**—**	745
Other non-current assets		**15,967**	4,005
		1,393,723	981,029
Current assets			
Inventories	15	**1,229,633**	804,069
Contract assets	16(a)	**609,515**	246,061
Trade and other receivables	17	**916,679**	578,858
Financial assets measured at fair value through profit or loss ("**FVPL**")	27(e)	**695**	—
Cash and cash equivalents	18	**1,545,079**	424,428
		4,301,601	2,053,416
Current liabilities			
Trade and other payables	19	**1,085,560**	724,551
Contract liabilities	16(b)	**2,171,901**	842,649
Interest-bearing borrowings	20	**370,002**	443,532
Lease liabilities	21	**2,338**	882
Current taxation	22(a)	**33,854**	6,201
Provisions	23	**17,362**	13,913
		3,681,017	2,031,728
Net current assets		**620,584**	21,688
Total assets less current liabilities		**2,014,307**	1,002,717

Consolidated Statement of Financial Position

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Non-current liabilities			
Lease liabilities	21	**1,536**	1,734
Deferred tax liabilities	22(b)	**4,126**	2,272
Deferred income	24	**353**	399
		6,015	4,405
Net assets		**2,008,292**	998,312
Capital and reserves	26		
Share capital		**571,769**	173
Reserves		**1,436,523**	998,139
Total equity attributable to equity shareholders of the Company		**2,008,292**	998,312
Total equity		**2,008,292**	998,312

Approved and authorised for issue by the board of directors on 25 March 2022.

)
)
Weihua Tang)
) *Directors*
)
Ye Sheng)
)

The notes on pages 101 to 178 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Company					
	Share capital RMB'000 Note 26(b)	**Capital reserve** RMB'000 Note 26(f)	**PRC statutory reserve** RMB'000 Note 26(d)	**Exchange reserve** RMB'000 Note 26(c)	**Retained earnings** RMB'000	**Total equity** RMB'000
Balance at 31 December 2020 and 1 January 2021	**173**	**433,141**	**31,381**	**3,175**	**530,442**	**998,312**
Profit for the year	**—**	**—**	**—**	**—**	**380,552**	**380,552**
Other comprehensive income for the year	**—**	**—**	**—**	**(9,719)**	**—**	**(9,719)**
Total comprehensive income for the year	**—**	**—**	**—**	**(9,719)**	**380,552**	**370,833**
Appropriation to PRC statutory reserve	**—**	**—**	**6,490**	**—**	**(6,490)**	**—**
Issuance of ordinary shares upon initial public offering (Note 26(b)(ii))	**493,980**	**—**	**—**	**—**	**—**	**493,980**
Issuance of ordinary shares upon over-allotment (Note 26(b)(iii))	**77,616**	**—**	**—**	**—**	**—**	**77,616**
Equity-settled share-based payment (Note 25)	**—**	**67,551**	**—**	**—**	**—**	**67,551**
Balance at 31 December 2021	**571,769**	**500,692**	**37,871**	**(6,544)**	**904,504**	**2,008,292**
Balance at 1 January 2020	389,234	—	17,647	(510)	300,392	706,763
Profit for the year	—	—	—	—	289,385	289,385
Other comprehensive income for the year	—	—	—	3,685	—	3,685
Total comprehensive income for the year	—	—	—	3,685	289,385	293,070
Appropriation to PRC statutory reserve	—	—	13,734	—	(13,734)	—
Issue of shares	85	(85)	—	—	—	—
Arising from Reorganisation	(387,621)	387,621	—	—	—	—
Deemed distribution to controlling shareholder	(1,525)	—	—	—	(15,601)	(17,126)
Dividend declared (Note 26(e))	—	—	—	—	(30,000)	(30,000)
Equity-settled share-based payment (Note 25)	—	36,835	—	—	—	36,835
Deemed contribution from controlling shareholder	—	8,770	—	—	—	8,770
Balance at 31 December 2020	173	433,141	31,381	3,175	530,442	998,312

The notes on pages 101 to 178 form part of these financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Operating activities:			
Cash generated from operations		**1,210,247**	209,633
Income tax paid	22(a)	**(36,529)**	(53,979)
Net cash generated from operating activities	18(b)	**1,173,718**	155,654
Investing activities:			
Payment for the purchase of property, plant and equipment		**(443,462)**	(129,753)
Proceeds from sale of property, plant and equipment and intangible assets		**819**	553
Payment for an equity method investment		**(10,910)**	—
Deemed distribution to controlling shareholders		**—**	(17,126)
Cash received from disposal of financial assets measured at FVPL		**3,299**	8,833
Interest received		**2,123**	1,723
Net cash used in investing activities		**(448,131)**	(135,770)
Financing activities:			
Capital element of lease rentals paid	18(c)	**(2,016)**	(1,743)
Proceeds from bank loans	18(c)	**482,333**	450,522
Repayment of bank loans	18(c)	**(554,066)**	(14,500)
Proceeds from borrowings from related parties	18(c)	**—**	215,403
Repayment of borrowings from related parties	18(c)	**—**	(667,831)
Proceeds from issue of shares		**571,596**	—
Interest element of lease rentals paid	18(c)	**(106)**	(60)
Interest paid	18(c)	**(22,683)**	(12,396)
Dividend paid		**(30,000)**	—
Net cash generated from/(used in) financing activities		**445,058**	(30,605)
Effect of foreign exchange rate changes on cash and cash equivalents		**(49,994)**	(16,249)
Net increase/(decrease) in cash and cash equivalents		**1,120,651**	(26,970)
Cash and cash equivalents at 1 January		**424,428**	451,398
Cash and cash equivalents at 31 December		**1,545,079**	424,428

The notes on pages 101 to 178 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(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 2021 comprise the company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in a joint venture.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except for forward foreign exchange contract (see Note 27(e)) which is measured at fair value (Note 1(g)).

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.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

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.

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

(e) Associates and joint ventures

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

(f) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the group determines fair value of financial instruments, see Note 27(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Equity investments

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

(g) Derivative financial instruments

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

(h) Property, plant and equipment

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

(i) Intangible assets (other than goodwill)

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

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

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

Both the period and method of amortisation are reviewed annually.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets

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

(i) As a lessee

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(ii) As a lessor

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

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

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

(k) Credit losses and impairment of assets

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

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

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

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

— lease receivables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs

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

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Basis of calculation of interest income

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

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

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

— significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Impairment of other non-current assets

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

— property, plant and equipment;

— right-of-use assets;

— intangible assets and

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

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

— Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

(l) Inventories and other contract costs

(i) Inventories

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

Inventories are carried at the lower of cost and net realisable value.

Cost of raw material is calculated using the weighted average cost formula, cost of work in progress is calculated using the specific identification method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 1(u)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 1(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 1(n)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 1(u)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 1(n)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 1(m)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are stated at amortised cost using the effective interest method and including an allowance for credit losses (see Note 1(k)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 1(t)(i).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 1(k)(i).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(w)).

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of pressure equipment and related services

The Group recognised revenue when (or as) a performance obligation is satisfied. i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Control is transferred over time and revenue is recognised over time measuring to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Groups performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue and other income *(Continued)*

(i) Sales of pressure equipment and related services *(Continued)*

The Group designs and manufactures the pressure equipment in accordance with the customer's specification which does not have an alternative use to the Group. Under contracts for which the Group has a right to be paid for work done to date in the event a customer decides to cancel the contract before the contract was fully completed, revenue arising from the contract, and a corresponding contract asset (see Note 1(m)), are recognised progressively over time. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see Note 1(n)).

The progress towards complete satisfaction of a performance obligation is mainly measured based on cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

For the sale of customized pressurized equipment that the Group does not have the right to be paid for work performed to date, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenue is recognised when the customer takes possession of and accepts the products.

For the sale of raw materials and scrap materials, revenue is recognised at a point in time when the customer obtains control of the products, which is generally when the customer takes possession of and accepts the products.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional (see Note 1(m)). It is assessed for impairment in accordance with HKFRS 9 (see Note 1(k)(i)).

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue and other income *(Continued)*

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(k)).

(v) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised as income in the profit or loss on a straight-line basis over the useful life of the related asset.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(z) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Determining the lease term

As explained in policy Note 1(j), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Sources of estimation uncertainty

Significant sources of estimation uncertainty are as follows:

(i) Revenue recognition

As explained in policy Note 1(u), recognition of revenue and profit recognised over time on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date.

Based on the Group's recent experience and the nature of the manufacturing and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in Note 16 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Warranty provisions

As explained in Note 23, the Group makes provisions under the warranties it gives on sale of its pressure equipment taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the production and sales of various pressure equipment. Further details regarding the Group's principal activities are disclosed in Note 3(b).

(i) Disaggregation of revenue

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

	Year ended 31 December	
	2021	2020
	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	**2,221,045**	1,578,628
— reactor	**1,036,177**	687,554
— heat exchanger	**400,142**	395,644
— tank	**516,792**	395,608
— tower	**267,934**	99,822
— modular pressure equipment	**1,925,440**	1,325,028
— others*	**27,913**	21,132
Sales of products	**4,174,398**	2,924,788
— Pressure equipment design, validation, and maintenance service	**104,449**	53,838
Service	**104,449**	53,838
Revenue of operations	**4,278,847**	2,978,626

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

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(i) Disaggregation of revenue *(Continued)*

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

The Group's customer base is diversified and includes one customer only with whom transactions have exceeded 10% of the Group's revenues of the year ended 31 December 2021 (2020: nil). Revenues from this customer during year ended 31 December 2021 are set out below:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Customer A	**535,712**	*

* 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 2021 and 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB5,720,026,000 and RMB3,316,811,000 respectively. 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.

The above amount also does not include any amounts of completion bonuses that the Group may earn in the future by meeting the conditions set out in the Group's contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(iii) Geographic information

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

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

	Revenues from external customers	
	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Mainland China	**3,541,208**	1,607,480
North America	**117,109**	124,119
Asia (excluding mainland China)	**338,453**	792,342
Europe	**215,157**	291,242
Others (Note)	**66,920**	163,443
	4,278,847	2,978,626

Note: Others mainly included countries in South America, Africa, 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 after the demerger of specialised pressure equipment segment in 2019.

4 OTHER INCOME/(LOSS)

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants (i)	**6,685**	10,187
Interest income	**2,123**	1,666
Net realised gains on financial assets measured at fair value through profit or loss	**3,299**	3,133
Net foreign exchange losses	**(16,069)**	(33,254)
Changes in fair value of financial assets and liabilities	**695**	(57)
Net loss on disposal of property, plant and equipment	**(610)**	(620)
Others	**8,709**	2,148
	4,832	(16,797)

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

5 PROFIT BEFORE TAXATION

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
(a) Finance costs:		
Interest on interest-bearing borrowings	**22,683**	12,396
Interest on lease liabilities	**106**	60
	22,789	12,456
(b) Staff costs:		
Salaries, wages and other benefits	**652,029**	506,179
Equity-settled share-based payment expenses (Note 25)	**67,551**	36,835
Contributions to defined contribution retirement plans (i)	**66,283**	28,792
	785,863	571,806

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

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

5 PROFIT BEFORE TAXATION *(Continued)*

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

(i) (Continued)

Included in the comparative figure of contributions to defined contribution plan was a sum of once-off social insurance concession of RMB35,766,000 granted for the relief in response to the COVID-19 pandemic by the government.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
(c) Other items:		
Amortisation of intangible assets	**13,669**	6,125
Depreciation charge		
— owned property, plant and equipment	**74,360**	65,813
— right-of-use assets	**4,900**	4,731
Auditor's remuneration		
— audit services	**3,480**	3,920
— tax services	**390**	360
— other services	**283**	—
Research and development costs (i)	**226,628**	125,779
Increase in provisions (Note 23)	**8,107**	6,651
Cost of inventories (ii)	**3,102,476**	2,134,522
Expense relating to short-term leases	**51,254**	37,108

(i) Research and development costs included staff costs of RMB119,763,000 and RMB84,921,000, depreciation and amortisation expenses of RMB7,729,000 and RMB4,964,000 for the years ended 31 December 2021 and 2020, which are also included in the respective total amounts disclosed separately above or in Note 5(b).

(ii) Cost of inventories included staff costs of RMB461,514,000 and RMB368,876,000, depreciation and amortisation expenses of RMB57,291,000 and RMB52,375,000 for the years ended 31 December 2021 and 2020, which are also included in the respective total amounts disclosed separately above or in Note 5(b).

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current tax:		
Provision for the year	**64,673**	46,681
Deferred tax:		
Origination and reversal of temporary differences	**2,599**	5,364
Actual tax expense	**67,272**	52,045

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

		Year ended 31 December	
	Note	**2021**	2020
		RMB'000	RMB'000
Profit before taxation		**447,824**	341,430
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	(i)(ii)	**83,476**	61,645
Additional deduction for qualified research and development expenses	(iii)	**(20,905)**	(10,392)
Under-provision in respect of prior year		**338**	97
Non-deductible expenses		**7,162**	1,619
Tax effect of unrecognised loss	(v)	**(3,206)**	1,063
Tax effect of unrecognised temporary difference		**407**	(1,987)
Actual tax expense		**67,272**	52,045

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS *(Continued)*

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

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

Pursuant to the income tax rules and regulations of Hong Kong, the Company and the Group's subsidiary in Hong Kong was subject to the Hong Kong Profits Tax at a rate of 16.5% during the reporting period. No provision for Hong Kong Profits Tax was made for the company incorporated in Hong Kong as the company did not have income subject to Hong Kong Profits Tax during 2021 and 2020.

Pursuant to the income tax rules and regulations of Sweden, Pharmadule Morimatsu AB was subject to the Sweden Corporate Tax at a rate of 20.6% and 21.4% in 2021 and 2020.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc was subject to the United States Corporate Tax at a rate of 21% in 2021 and 2020, which represents federal income tax at a rate determined by income ranges.

Pursuant to the income tax rules and regulations of India, Pharmadule Engineering India Private Limited was subject to the Indian Corporate Tax at a rate of 25% during 2021 and 2020. No provision for Indian Corporate Tax was made for Pharmadule Engineering India Private Limited as the company did not have income subject to Indian Corporate Tax during the reporting period.

Pursuant to the income tax rules and regulations of Japan, Morimatsu Technology And Service Company Limited was liable to the Japan Corporate Tax at a rate of 33.58% and 33.28% in 2021 and 2020.

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. (established on 26 November 2020) was liable to the Italy Corporate Tax at a rate of 24% in 2021. No provision for Italian Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italian Corporate Tax during the reporting period.

(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%	2021 and 2020
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (上海森松製藥設備工程有限公司)	15%	2021 and 2020

(iii) Under the CIT Law of the PRC and its relevant regulation, qualified research and development expenses are subject to income tax deduction at 175% on the amount actually incurred for the year ended 31 December 2020, and at 200% on the amount actually incurred for the year ended 31 December 2021.

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS *(Continued)*

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

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

(v) Under PRC CIT law, the deductible tax losses expire within 5 years from the year when such losses were incurred. It was mainly arising from the Morimatsu (China) Investment Co., Ltd. whose principal activity was investment holding.

7 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2021

	Director's fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 Note 25	Total RMB'000
Executive directors							
Mr. Wei Hua Tang	144	314	1,521	57	2,036	4,041	6,077
Mr. Ye Sheng	144	260	1,559	57	2,020	4,041	6,061
Mr. Koei Nishimatsu	144	1,639	425	–	2,208	5,774	7,982
Mr. Jungo Hirazawa	144	969	65	–	1,178	1,735	2,913
Mr. Hirotaka Kawashima	144	1,075	237	–	1,456	2,021	3,477
Non-executive director							
Mr. Terumoto Matsuhisa	75	–	–	–	75	8,578	8,653
Independent directors							
Ms. Chan Yuen Sau Kelly	75	–	–	–	75	–	75
Mr. Kanno Shinichiro	75	–	–	–	75	–	75
Mr. Yu Jianguo	75	–	–	–	75	–	75
	1,020	4,257	3,807	114	9,198	26,190	35,388

7 DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2020

	Director's fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 Note 25	Total RMB'000
Executive directors							
Mr. Wei Hua Tang	36	297	1,123	4	1,460	2,204	3,664
Mr. Ye Sheng	36	245	1,521	40	1,842	2,204	4,046
Mr. Koei Nishimatsu	36	1,885	422	—	2,343	3,148	5,491
Mr. Jungo Hirazawa	36	239	—	—	275	946	1,221
Mr. Hirotaka Kawashima	36	1,427	322	—	1,785	1,102	2,887
Non-executive director							
Mr. Terumoto Matsuhisa	—	—	—	—	—	4,677	4,677
	180	4,093	3,388	44	7,705	14,281	21,986

Mr. Wei Hua Tang, Mr. Ye Sheng, Mr. Koei Nishimatsu, Mr. Jungo Hirazawa, and Mr. Hirotaka Kawashima were appointed as executive director of the Company on 1 September 2020. Mr. Terumoto Matsuhisa was appointed as non-executive director of the Company on 1 September 2020. They are also key management personnel of the Group during the reporting period. The remuneration disclosed above include those for services rendered by them as key management personnel.

In addition to the directors' remuneration disclosed above, remuneration of Mr. Terumoto Matsuhisa in 2020 are not paid directly by the Company but are paid by the Company's holding company, in respect of his services to the larger group which includes the Company and its subsidiaries. In 2020, no apportionment has been made as the qualifying services provided by these directors to the Company and its subsidiaries are incidental to their responsibilities to the larger group.

During 2021 and 2020, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals set out in Note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

Ms. Chan Yuen Sau Kelly, Mr. Kanno Shinichiro and Mr. Yu Jianguo were appointed as independent non-executive directors on 10 February 2021.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the years ended 31 December 2021, three are directors (2020: three) whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the remaining two individuals during 2021 (2020: two) are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and other emoluments	**542**	526
Discretionary bonuses	**2,391**	2,121
Share-based payments (Note 25)	**7,504**	4,092
Retirement scheme contributions	**113**	44
	10,550	6,783

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	Year ended 31 December	
	2021	2020
HKD3,500,001 – HKD4,000,000	**—**	1
HKD4,000,001 – HKD4,500,000	**—**	1
HKD5,500,001 – HKD6,000,000	**1**	—
HKD7,000,001 – HKD7,500,000	**1**	—

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB380,552,000 (2020: RMB289,385,000) and the weighted average of 895,034,000 ordinary shares (2020: 750,000,000 shares after adjusting for the bonus issue in 2021) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at 1 January	**200,000**	100,000
Effect of bonus issue (note (i) below)	**749,800,000**	749,800,000
Effect of shares issued (note (ii) below)	**—**	100,000
Effect of shares issued (Note 26(b)(ii)(iii))	**145,034,000**	—
Weighted average number of ordinary shares at 31 December	**895,034,000**	750,000,000

note (i): The number of ordinary shares outstanding before the bonus issue completed on 31 May 2021 (Note 26(b)(i)) was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the bonus issue had occurred at the beginning of the earliest period presented.

note (ii): The number of ordinary shares outstanding before the share issued for reorganisation completed on 11 November 2020 was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the shares issued at the beginning of the earliest period presented.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of RMB380,552,000 (2020: RMB289,385,000) and the weighted average number of ordinary shares of 1,004,396,000 shares (2020: 750,000,000 shares after adjusting for the bonus issue in 2021), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
Weighted average number of ordinary shares at 31 December	**895,034,000**	750,000,000
Effect of deemed issue of shares under the Company's share option scheme (Note 25)	**109,362,000**	—
Weighted average number of ordinary shares (diluted) at 31 December	**1,004,396,000**	750,000,000

10 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2020	705,496	235,731	75,158	16,898	133,188	1,166,471
Additions	1,250	12,955	7,281	2,528	70,782	94,796
Transfer from construction in progress	142,163	16,771	1,139	8	(160,081)	—
Disposals	—	(2,744)	(1,678)	(770)	—	(5,192)
At 31 December 2020 and 1 January 2021	**848,909**	**262,713**	**81,900**	**18,664**	**43,889**	**1,256,075**
Additions	**—**	**20,187**	**14,105**	**3,493**	**426,164**	**463,949**
Transfer from construction in progress	**20,609**	**30,294**	**466**	**—**	**(51,369)**	**—**
Disposals	**—**	**(1,623)**	**(2,090)**	**(946)**	**(326)**	**(4,985)**
At 31 December 2021	**869,518**	**311,571**	**94,381**	**21,211**	**418,358**	**1,715,039**
Accumulated depreciation:						
At 1 January 2020	(183,635)	(111,719)	(50,573)	(10,139)	—	(356,066)
Charge for the year	(35,178)	(21,795)	(7,073)	(1,767)	—	(65,813)
Written back on disposal	—	2,192	1,407	732	—	4,331
At 31 December 2020 and 1 January 2021	**(218,813)**	**(131,322)**	**(56,239)**	**(11,174)**	**—**	**(417,548)**
Charge for the year	**(38,651)**	**(23,723)**	**(9,524)**	**(2,462)**	**—**	**(74,360)**
Written back on disposal	**—**	**1,278**	**1,690**	**852**	**—**	**3,820**
At 31 December 2021	**(257,464)**	**(153,767)**	**(64,073)**	**(12,784)**	**—**	**(488,088)**
Net book Value:						
At 31 December 2021	**612,054**	**157,804**	**30,308**	**8,427**	**418,358**	**1,226,951**
At 31 December 2020	630,096	131,391	25,661	7,490	43,889	838,527

11 RIGHT-OF-USE ASSETS

	Land use right RMB'000	Leasehold plant and buildings RMB'000	Machinery and equipment RMB'000	Total RMB'000
Balance at 1 January 2020	108,103	3,904	302	112,309
Additions	—	273	—	273
Depreciation charge for the year	(2,814)	(1,845)	(72)	(4,731)
Balance at 31 December 2020 and 1 January 2021	**105,289**	**2,332**	**230**	**107,851**
Additions	**—**	**3,274**	**—**	**3,274**
Depreciation charge for the year	**(2,814)**	**(2,014)**	**(72)**	**(4,900)**
Balance at 31 December 2021	**102,475**	**3,592**	**158**	**106,225**

The Group has obtained land use rights held for own use in Mainland China with remaining lease term of 30 to 50 years.

12 INTANGIBLE ASSETS

	Patents and trademarks RMB'000	Software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:				
At 1 January 2020	10,096	23,296	2,348	35,740
Additions	—	19,304	848	20,152
Transfer from construction in progress	—	3,196	(3,196)	—
Disposals	(10,096)	(131)	—	(10,227)
At 31 December 2020 and 1 January 2021	**—**	**45,665**	**—**	**45,665**
Additions	**—**	**16,434**	**1,300**	**17,734**
Transfer from construction in progress	**—**	**493**	**(493)**	**—**
Disposals	**—**	**(6,344)**	**—**	**(6,344)**
At 31 December 2021	**—**	**56,248**	**807**	**57,055**
Accumulated amortisation:				
At 1 January 2020	(10,096)	(9,770)	—	(19,866)
Charge for the year	—	(6,125)	—	(6,125)
Written back on disposal	10,096	131	—	10,227
At 31 December 2020 and 1 January 2021	**—**	**(15,764)**	**—**	**(15,764)**
Charge for the year	**—**	**(13,669)**	**—**	**(13,669)**
Written back on disposal	**—**	**6,080**	**—**	**6,080**
At 31 December 2021	**—**	**(23,353)**	**—**	**(23,353)**
Net book value:				
At 31 December 2021	**—**	**32,895**	**807**	**33,702**
At 31 December 2020	—	29,901	—	29,901

Design software and ERP software are expected to be used for 10 years.

Office administrative software are expected to be used for 3 to 5 years.

The amortisation charge for the year is included in "General and administrative expenses" and "Research and development expenses" in the consolidated statement of profit or loss.

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation, date of incorporation	Registered capital/ issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Pharmadule Engineering India Private Limited ("**Pharmadule India**")	India 15 May 2017	INR49,990,000/ INR 49,990,000	—	100%	Purchase of materials and design of pressure equipment
Pharmadule Morimatsu AB ("**Pharmadule Sweden**")	Sweden 3 March 2011	SEK2,000,000/ SEK 2,000,000	100%	—	Designing and engineering of modular manufacturing facilities for the pharmaceutical, biopharmaceutical and fast-moving consumer goods industries.
Morimatsu Investment Company Limited ("**Morimatsu Investment HK**")	Hong Kong 30 September 2013	USD129,000/ USD129,000	—	100%	Investment holding.
Morimatsu (China) Investment Co., Ltd. ("**Morimatsu China**") (森松(中國)投資有限公司)*#	The PRC 07 June 2010	USD103,009,000/ USD103,009,000	100%	—	Investment holding.
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("**Morimatsu Heavy Industry**") (森松(江蘇)重工有限公司)*#	The PRC 13 May 2008	USD141,378,000/ USD141,378,000	—	100%	Chemical industry, oil and gas refining, metallurgy, water treatment, new energy and other industries related to traditional pressure equipment (reactor, heat exchanger, vessel, tower) and modular pressure equipment.
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("**Morimatsu Pharmaceutical Equipment**") (上海森松製藥設備工程有限公司)*#	The PRC 29 November 2001	USD8,000,000/ USD8,000,000	—	100%	Process equipment and modular process system and facility in pharmaceutical and consumer goods industry.
Pharmadule Morimatsu Inc ("**Pharmadule US**")	USA 30 June 2011	USD5,000/USD5,000	—	100%	Sales center, after-sales service center and purchasing center of SMP and Pharmadule Morimatsu AB in the United States.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation, date of incorporation	Registered capital/ issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Morimatsu Technology And Service Company Limited ("**Morimatsu Japan**")	Japan 31 January 2014	JPY50,000,000/ JPY50,000,000	100%	—	Sales activities for the Group's products in Japan.
Morimatsu Italy S.R.L. ("**Morimatsu Italy**")	Italy 26 November 2020	EUR200,000/ EUR200,000	—	100%	Sales activities for the Group's products in Italy.
Morimatsu (Suzhou) LifeScience Co., Ltd. ("**Morimatsu LifeScience**") (森松(蘇州)生命科技有限公司)*#	The PRC 26 September 2021	HKD780,000,000/ HKD5,000,000	100%	—	Designing and engineering of modular manufacturing facilities for the pharmaceutical and biopharmaceutical industries.
Shanghai Morimatsu Engineering Technology Co., Ltd. ("**Morimatsu Engineering**") (上海森松工程技術有限公司)*#	The PRC 19 November 2021	RMB10,000,000/ RMB200,000	—	100%	Designing of modular manufacturing facilities.

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

\# These entities are wholly foreign owned enterprises established in the PRC.

14 INTEREST IN JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Forms of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Groups' effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Morimatsu Dialog (Malaysia) SDN. BHD.	Incorporated	Malaysia	RM14,000,000	51.00%	51.00%	Manufacturing of equipment and modular process system and facility

Morimatsu Dialog (Malaysia) SDN. BHD. ("**Morimatsu Dialog**") was established on 14 September 2021 by Morimatsu Japan with a joint venturer in Malaysia, to carry out the Group's manufacturing activity in Malaysia. Morimatsu Dialog is mainly engaged in the manufacturing of equipment and modular process system and facility.

The Group accounts for Morimatsu Dialog as an investment in a joint venture using the equity method in the consolidated financial statements of the Group under applicable financial reporting standards, as Morimatsu Dialog is under joint control.

Morimatsu Dialog, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

Morimatsu Dialog is still under start-up process and has not started normal operation. The total comprehensive loss from Morimatsu Dialog is RMB64,000, and the net assets of RMB21,309,000 are mainly paid up capital.

The amount of RM3,701,000 (equivalent to RMB5,650,000) has been authorised but not contracted for as capital expenditure as at 31 December 2021.

15 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	As at 31 December **2021** **RMB'000**	2020 RMB'000
Raw materials	**330,331**	269,216
Work in progress	**899,302**	534,853
	1,229,633	804,069

15 INVENTORIES *(Continued)*

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Carrying amount of inventories sold	**3,098,961**	2,127,999
Write down of inventories	**5,174**	13,212
Reversal of write-down of inventories	**(1,659)**	(6,689)
Recognised research and development expenses	**94,706**	33,271
	3,197,182	2,167,793

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value as a result of changes in contract prices.

16 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contract assets		
Arising from revenue recognised over time	**609,515**	246,061
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (Note 17)	**604,819**	455,523

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	
	2021	2020
	RMB'000	RMB'000
Contract liabilities		
Billings in advance of performance	**2,171,901**	842,649

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.

16 CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(b) Contract liabilities *(Continued)*

	Contract liabilities RMB'000
Movement in contract liabilities	
At 1 January 2020	1,264,079
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	(1,165,437)
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	744,007
At 31 December 2020 and 1 January 2021	**842,649**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(680,893)**
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	**2,010,145**
At 31 December 2021	**2,171,901**

17 TRADE AND OTHER RECEIVABLES

	Note	**As at 31 December** **2021** **RMB'000**	2020 RMB'000
Bills receivable (Note (a)(i))		**83,398**	19,662
Trade debtors net of loss allowance		**604,819**	455,523
Other debtors		**23,285**	21,069
Prepaid income tax	22(a)	**—**	491
Financial assets measured at amortised cost		**711,502**	496,745
Prepayments		**205,177**	82,113
		916,679	578,858

Apart from those mentioned in Note 23, all of the trade and other receivables are expected to be recovered or recognised as expense within one year.

17 TRADE AND OTHER RECEIVABLES *(Continued)*

(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 2021, the Group had bill receivable of RMB5,205,000 (as at 31 December 2020: nil) pledged to China Zheshang Bank as security for bills payable.

(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 2021 and 2020, bills endorsed and derecognised, but yet reached maturity amounted to RMB232,865,000 and RMB63,700,000 respectively. 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 RMB47,797,000 and RMB19,662,000 endorsed by the Group to its suppliers during the years ended 31 December 2021 and 2020 respectively 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.

17 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Ageing analysis

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 3 months	**401,492**	216,703
More than 3 months but less than 1 year	**143,589**	141,118
More than 1 year but less than 2 years	**57,482**	91,900
More than 2 years	**2,256**	5,802
	604,819	455,523

Trade debtors and bills receivable are mainly due within 30 days from the date of invoice. Further details on the Group's credit policy and credit risk rising from trade debtors are set out in Note 27(a).

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Deposits with banks	**43,101**	23,885
Cash at banks and on hand	**1,501,978**	400,543
	1,545,079	424,428

As at 31 December 2021, the Group had deposits with banks of RMB2,896,000 (2020: nil) pledged to banks as security for bills payable and deposits with banks of nil (2020: RMB23,885,000) pledged to banks as security for letters of guarantee.

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Profit before taxation		**447,824**	341,430
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	**74,360**	65,813
Depreciation of right of use assets	5(c)	**4,900**	4,731
Amortisation of intangible assets	5(c)	**13,669**	6,125
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets	4	**610**	620
Changes in fair value of financial assets and liabilities	4	**(695)**	57
Interest income	4	**(2,123)**	(1,666)
Net foreign exchange losses		**38,479**	20,164
Finance costs	5(a)	**22,789**	12,456
Share of results of joint venture		**32**	—
Equity-settled share-based payment expenses	5(b)	**67,551**	36,835
Net realised gains on financial assets measured at fair value through profit or loss	4	**(3,299)**	(3,133)
Changes in working capital			
Decrease in deferred tax assets		**745**	3,092
Increase in deferred tax liabilities		**1,854**	2,272
(Increase)/decrease in inventories		**(425,564)**	328,416
Increase in contract assets		**(363,454)**	(95,878)
(Increase)/decrease in trade and other receivables		**(396,242)**	6,119
Decrease in other non-current assets		**719**	62
Increase/(decrease) in contract liabilities		**1,329,252**	(421,430)
Increase/(decrease) in trade and other payables		**358,908**	(151,002)
Decrease for deferred income		**(46)**	(49)
Increase in provisions		**3,449**	620
Net cash flows generated from operating activities		**1,173,718**	155,654

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings RMB'000 (Note 20)	Lease liabilities RMB'000 (Note 21)	Interest payable RMB'000	Total RMB'000
At 1 January 2020	468,181	4,359	—	472,540
Changes from financing cash flows:				
Proceeds from borrowings from related parties	215,403	—	—	215,403
Proceeds from bank loans	450,522	—	—	450,522
Capital element of lease rentals paid	—	(1,743)	—	(1,743)
Interest element of lease rentals paid	—	(60)	—	(60)
Repayment of bank loans	(14,500)	—	—	(14,500)
Repayment of borrowings from related parties	(667,831)	—	—	(667,831)
Interest paid	—	—	(12,396)	(12,396)
Total changes from financing cash flows	(16,406)	(1,803)	(12,396)	(30,605)
Exchange adjustment	527	—	—	527
Other changes:				
Interest expenses (Note 5(a))	—	60	12,396	12,456
Waiver of liability	(8,770)	—	—	(8,770)
Total other changes	**(8,770)**	**60**	**12,396**	**3,686**

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank loans and other borrowings RMB'000 (Note 20)	Lease liabilities RMB'000 (Note 21)	Interest payable RMB'000	Total RMB'000
At 31 December 2020 and 1 January 2021	**443,532**	**2,616**	**—**	**446,148**
Changes from financing cash flows:				
Proceeds from bank loans	**482,333**	**—**	**—**	**482,333**
Capital element of lease rentals paid	**—**	**(2,016)**	**—**	**(2,016)**
Interest element of lease rentals paid	**—**	**(106)**	**—**	**(106)**
Repayment of bank loans	**(554,066)**	**—**	**—**	**(554,066)**
Interest paid	**—**	**—**	**(22,683)**	**(22,683)**
Total changes from financing cash flows	**(71,733)**	**(2,122)**	**(22,683)**	**(96,538)**
Exchange adjustment	**(1,797)**	**—**	**—**	**(1,797)**
Other changes:				
Increase in lease liabilities from entering into new leases during the period	**—**	**3,274**	**—**	**3,274**
Interest expenses (Note 5(a))	**—**	**106**	**22,683**	**22,789**
Total other changes	**—**	**3,380**	**22,683**	**26,063**
At 31 December 2021	**370,002**	**3,874**	**—**	**373,876**

(d) Total cash outflow for leases

	2021 RMB'000	2020 RMB'000
Within operating cash flows	**21,685**	30,592
Within financing cash flows	**2,122**	1,803
	23,807	32,395

19 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Bills payable	**46,319**	—
Trade payables	**718,399**	433,176
Other payables and accruals	**320,842**	291,375
Financial liabilities measured at amortised cost	**1,085,560**	724,551

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	
	2021	2020
	RMB'000	RMB'000
Within 3 months	**561,565**	327,383
More than 3 months but less than 6 months	**99,990**	69,795
More than 6 months but less than 12 months	**40,214**	21,925
More than 1 year but less than 2 years	**12,611**	10,112
More than 2 years	**4,019**	3,961
	718,399	433,176

Bills payable of RMB11,655,000 (2020: nil) was guaranteed by pledging bills receivable and deposit with banks.

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.

20 INTEREST-BEARING BORROWINGS

(a) The analysis of carrying amount of interest-bearing borrowings is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current		
— guaranteed bank loans	**370,002**	443,532
Interest-bearing borrowings	**370,002**	443,532

(b) The bank loans and interest-bearing borrowings were repayable as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 1 year or on demand	**370,002**	443,532
	370,002	443,532

21 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	As at 31 December 2021		As at 31 December 2020	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**2,338**	**2,403**	882	904
After 1 year but within 2 years	**1,170**	**1,179**	816	824
After 2 years but within 5 years	**366**	**369**	918	921
	3,874	**3,951**	2,616	2,649
Less: total future interest expenses		**(77)**		(33)
Present value of lease liabilities		**3,874**		2,616

22 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represent:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Provision for income tax for the year:		
Balance at 1 January	**5,710**	13,008
Provision for current income tax for the year	**64,673**	46,681
PRC income tax paid	**(36,529)**	(53,979)
Balance at 31 December	**33,854**	5,710
Representing:		
Income tax payable	**33,854**	6,201
Prepaid income tax	**—**	(491)
	33,854	5,710

(b) Deferred tax assets recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the reporting period are as follows:

	Accruals and provisions RMB'000	Amortisation of Intangible assets RMB'000	Credit loss allowance RMB'000	Revaluation of financial assets and liabilities RMB'000	Depreciation allowances in excess of the related depreciation RMB'000	Provisions for warranties, onerous contract and litigation RMB'000	Provisions for inventories RMB'000	Deferred income RMB'000	Total RMB'000
Deferred tax assets/ (liabilities) arising from:									
At 1 January 2020	3,686	13	3,674	(9)	(10,168)	1,994	4,430	217	3,837
(Charged)/credited to profit or loss	(105)	(3)	(210)	9	(3,884)	80	(1,395)	144	(5,364)
At 31 December 2020 and 1 January 2021	**3,581**	**10**	**3,464**	**—**	**(14,052)**	**2,074**	**3,035**	**361**	**(1,527)**
Credited/(charged) to profit or loss	**1,987**	**(10)**	**(48)**	**(104)**	**(3,370)**	**530**	**(1,277)**	**(307)**	**(2,599)**
At 31 December 2021	**5,568**	**—**	**3,416**	**(104)**	**(17,422)**	**2,604**	**1,758**	**54**	**(4,126)**

22 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets recognised *(Continued)*

(ii) Reconciliation to the consolidated statement of financial position

	2021 **RMB'000**	2020 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**—**	745
Net deferred tax liability recognised in the consolidated statement of financial position	**(4,126)**	(2,272)
	(4,126)	(1,527)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB66,713,000 as at 31 December 2021 (2020: RMB124,993,000), respectively, of the relevant companies as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity before they expire. The deductible tax losses expire within 5 years from the year when such losses were incurred under current tax law.

(d) Deferred tax liabilities not recognised

At 31 December 2021 and 2020, temporary differences relating to undistributed profits of the subsidiaries amounted to RMB1,063,036,000 and RMB574,475,000 respectively. Deferred tax liabilities of RMB106,304,000 and RMB57,448,000 respectively have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits would not be distributed to the Company in the foreseeable future.

23 PROVISIONS

	Warranty provision RMB'000	Provision for onerous contract RMB'000	Total RMB'000
At 1 January 2021	**13,060**	**853**	**13,913**
Additional provisions made	**8,014**	**93**	**8,107**
Provisions utilised	**(3,921)**	**(737)**	**(4,658)**
At 31 December 2021	**17,153**	**209**	**17,362**

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within 18 months of the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the 18 months prior to the end of the each reporting period. The amount of provision takes into account the Group's recent experience and is only made where a warranty claim is probable.

Comparative figures have been adjusted to current liabilities.

24 DEFERRED INCOME

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants	**353**	399

Government grants are related to assets those are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

The Group recognised an expense of RMB67,551,000 in the year ended 31 December 2021 (31 December 2020: RMB36,835,000), which is by reference to the fair value of the options granted on the measurement date (also referred as "**grant date**" herein), and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and other reserve, respectively.

(a) The terms and conditions of the grants are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Fair value at the grant date
At 1 July 2020	132,380,000	20% at any time after the first, second, third, fourth and fifth anniversary of the listing date	5.99 years	RMB2.29

(b) The number of instruments are as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Outstanding at the beginning of the year	**132,380,000**	—
Granted during the year	**—**	132,380,000
Exercised during the year	**—**	—
Forfeited during the year	**—**	—
Outstanding at the end of the year	**132,380,000**	132,380,000
Exercisable at the end of the year	**132,380,000**	132,380,000

The options outstanding at 31 December 2021 had an exercise price of HK$0.0001 and a weighted average remaining contractual life of 4.49 years.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Measurement of fair values

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model.

	2021 and 2020
Fair value of share options and assumptions	
Fair value at measurement date	RMB2.29
Exercise price	HK$0.0001
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	51.55%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	10.54 years
Expected dividends	0.00%
Risk-free interest rate (based on Exchange Fund Notes)	2.83%

Volatility was based on historical volatilities of the comparable companies in the same industry for a period of remaining contractual life, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

26 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	Capital reserve	Exchange reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 26(b)		Note 26(c)		
Balance at 1 January 2020	88	—	(44)	(4,480)	(4,436)
Changes in equity for the year ended 31 December 2020					
Loss for the year	—	—	—	(70,615)	(70,615)
Other comprehensive income for the year	—	—	2,518	—	2,518
Shares issued	85	486,557	—	—	486,642
Equity-settled share-based transactions (Note 25)	—	36,835	—	—	36,835
Total change for the year	85	523,392	2,518	(70,615)	455,380
Balance at 31 December 2020 and 1 January 2021	173	523,392	2,474	(75,095)	450,944
Changes in equity for the year ended 31 December 2021					
Loss for the year	**—**	**—**	**—**	**(93,797)**	**(93,797)**
Other comprehensive income for the year	**—**	**—**	**(5,625)**	**—**	**(5,625)**
Shares issued	**571,596**	**—**	**—**	**—**	**571,596**
Equity-settled share-based transactions (Note 25)	**—**	**67,551**	**—**	**—**	**67,551**
Total change for the year	**571,596**	**67,551**	**(5,625)**	**(93,797)**	**539,725**
Balance at 31 December 2021	**571,769**	**590,943**	**(3,151)**	**(168,892)**	**990,669**

26 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Group underwent a reorganisation (the "**Reorganisation**") The Company was incorporated in Hong Kong on 23 July 2019 and became the holding company of the Group since 11 November 2020 as part of the Reorganisation.

	2021		2020	
	No. of shares ('000)	**RMB'000**	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**200**	**173**	100	389,234
Issue of shares	**—**	**—**	100	85
Arising from Reorganisation*	**—**	**—**	—	(387,621)
Deemed distribution to controlling shareholder	**—**	**—**	—	(1,525)
Bonus issue (Note 26(b)(i))	**749,800**	**—**	—	—
Issuance of ordinary shares upon initial public offering (Note 26(b)(ii))	**250,000**	**493,980**	—	—
Issuance of ordinary shares upon over-allotment (Note 26(b)(iii))	**37,500**	**77,616**	—	—
At 31 December	**1,037,500**	**571,769**	200	173

* Pursuant to the equity transfer agreement dated 22 October 2020, Morimatsu Industry transferred the entire equity interest in Morimatsu China to the Company at a consideration which was equivalent to the then registered capital of Morimatsu China. The consideration was satisfied by the Company through allotment and issue of 100,000 shares as fully paid to Morimatsu Industry. Upon completion of the said transfer on 11 November 2020, Morimatsu China was wholly owned by the Company.

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

(i) Bonus issue

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

26 CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(ii) Issuance of ordinary shares upon initial public offering

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

(iii) Issuance of ordinary shares upon over-allotment

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

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Historical Financial Information of foreign operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policies set out in Note 1(v).

(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.

26 CAPITAL AND RESERVES *(Continued)*

(e) Dividends

(i) Dividends for the reporting period represent dividends declared and approved to equity shareholders of the Company during the years ended 31 December 2021 and 2020.

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Dividends declared and approved during the year	**—**	30,000

The directors consider that the dividends declared and approved during the reporting period are not indicative of the future dividend policy of the Group.

(f) Capital reserve

The capital reserve comprises the following:

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

— the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 1(r)(ii).

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities), less cash and cash equivalents. Adjusted capital comprises all components of equity.

During the years ended 31 December 2021 and 2020, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

26 CAPITAL AND RESERVES *(Continued)*

(g) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratios at 31 December 2020 and 2021 were as follows:

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Current liabilities:			
Interest-bearing borrowings	20	**370,002**	443,532
Lease liabilities	21	**2,338**	882
Non-current liability:			
Lease liabilities	21	**1,536**	1,734
Total debt		**373,876**	446,148
Less: Cash and cash equivalents	18(a)	**(1,545,079)**	(424,428)
Adjusted net debt		**(1,171,203)**	21,720
Total equity attributable to equity shareholders of the Company		**2,008,292**	998,312
Adjusted capital		**2,008,292**	998,312
Adjusted net debt-to-capital ratio		**no net debt**	2%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements throughout the reporting period.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks, for which the Group considers to have low credit risk.

The Group also provides through banking facilities, performance guarantees as required by its customers under normal course of business. Other than the above, the Group does not provide any other guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2021 and 2020, 8% and 14% of the total trade receivables and contract assets was due from the Group's largest customer, 21% and 27% of the total trade receivables and contract assets was due from the Group's five largest customers respectively.

Individual credit evaluations are performed on all customers who have high credit risk such as litigation issues. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are mainly due within 30 days from the date of invoice. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

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

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets *(Continued)*

During the year ended 31 December 2021 and 2020, there was no significant change in the customer base, the credit risk of customers, the Group's credit policy, the economic conditions and the Group's view of economic conditions over the expected lives of receivables.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2021 and 2020:

		31 December 2021	
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**0.11%~0.33%**	**920,795**	**(1,942)**
0–3 months past due	**0.85%~1.76%**	**148,105**	**(1,730)**
4–6 months past due	**1.80%~3.05%**	**71,528**	**(1,634)**
7–12 months past due	**2.61%~12.96%**	**55,449**	**(3,631)**
1–2 year past due	**3.23%~100%**	**35,751**	**(8,357)**
		1,231,628	**(17,294)**
Customers with high credit risk	**100.00%**	**984**	**(984)**
		1,232,612	**(18,278)**

		31 December 2020	
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.05%~0.27%	421,968	(926)
0–3 months past due	0.41%~1.73%	122,750	(754)
4–6 months past due	0.79%~2.27%	35,960	(384)
7–12 months past due	1.94%~12.36%	77,829	(2,057)
1–2 year past due	5.35%~100%	53,064	(5,866)
More than 2 years past due	100%	2,711	(2,711)
		714,282	(12,698)
Customers with high credit risk	100.00%	4,336	(4,336)
		718,618	(17,034)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets *(Continued)*

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Balance at 1 January	**17,034**	19,752
Amounts written off during the year	**(1,559)**	(97)
Impairment losses recognised during the year	**5,297**	6,813
Impairment losses reversed during the year	**(2,494)**	(9,434)
Balance at 31 December	**18,278**	17,034

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance:

— origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB7,286,000 (2020: RMB7,451,000);

— settlement of trade receivables originated from prior years resulted in a decrease in loss allowance of RMB12,992,000(2020: RMB14,924,000);

— increase in days past due over resulted in an increase in loss allowance of RMB8,509,000 (2020: RMB4,852,000); and

— a write-off of trade receivables with a gross carrying amount of RMB1,561,000 (2020: RMB237,000) resulted in a decrease in loss allowance of RMB1,559,000 (2020: RMB97,000).

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2021 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing borrowings	**383,744**	**—**	**383,744**	**370,002**
Trade and other payables	**1,085,560**	**—**	**1,085,560**	**1,085,560**
Lease liabilities	**2,403**	**1,548**	**3,951**	**3,874**
	1,471,707	**1,548**	**1,473,255**	**1,459,436**

	As at 31 December 2021 Contractual undiscounted cash (outflow)/inflow	
	Within 1 year or on demand RMB'000	Total RMB'000
Forward foreign exchange contracts:		
— outflow	**(102,083)**	**(102,083)**
— inflow	**102,778**	**102,778**

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

	As at 31 December 2020			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing borrowings	458,929	—	458,929	443,532
Trade and other payables	724,551	—	724,551	724,551
Lease liabilities	904	1,745	2,649	2,616
	1,184,384	1,745	1,186,129	1,170,699

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from long-term borrowings. All of the borrowings of the Group are fixed rate instruments and are insensitive to any change in market interest rate.

The Group actively monitors the interest rate fluctuation to ensure that its net exposure is kept to an acceptable level.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	As at 31 December 2021		As at 31 December 2020	
	Interest rate %	**RMB'000**	Interest rate %	RMB'000
Fixed rate borrowings:				
Interest-bearing borrowings	**3.85% – 4.43%**	**370,002**	1.09% – 4.39%	443,532
Lease liabilities	**0.00% – 6.25%**	**3,874**	0.00% – 6.25%	2,616
Total borrowings		**373,876**		446,148
Fixed rate borrowings as a percentage of total borrowings		**100%**		100%

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen, Hong Kong dollar and Renminbi. The Group may also use forward foreign exchange contracts to manage currency risk. As at 31 December 2021, the effect of forward foreign exchange contracts is not material to the Group.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at each year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

	Exposure to foreign currencies (expressed in RMB'000) As at 31 December 2021				
	USD	**EUR**	**JPY**	**HKD**	**RMB**
Cash and cash equivalents	**561,743**	**438,775**	**9,168**	**3,925**	**9,899**
Trade and other receivables	**97,302**	**311**	**495**	**—**	**—**
Contract assets	**27,062**	**53,226**	**—**	**—**	**—**
Interest-bearing borrowings	**—**	**—**	**—**	**—**	**(345,002)**
Trade and other payables	**(28,828)**	**(15,895)**	**(319)**	**—**	**(3,663)**
Net balance sheet exposure	**657,279**	**476,417**	**9,344**	**3,925**	**(338,766)**

	exposure to foreign currencies (expressed in RMB'000) As at 31 December 2020			
	USD	EUR	JPY	RMB
Cash and cash equivalents	275,688	47,795	7,516	2,444
Trade and other receivables	98,686	11,857	477	—
Contract assets	16,786	25	—	—
Interest-bearing borrowings	—	—	(632)	(401,047)
Trade and other payables	(22,063)	(2,614)	(313)	—
Net balance sheet exposure	369,097	57,063	7,048	(398,603)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	As at 31 December			
	2021		2020	
	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**5**	**27,934**	5	15,687
EUR	**5**	**20,248**	5	2,425
JYP	**5**	**397**	5	300
HKD	**5**	**167**	5	—
RMB	**5**	**(14,398)**	5	(16,941)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

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

During the years ended 31 December 2021 and 2020, 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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy *(Continued)*

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.

(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 2021 and 2020.

28 COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Authorised but not contracted for	**899,819**	341,308
Contracted for but not provided for	**158,638**	58,585
	1,058,457	399,893

(b) Operating lease commitments

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 1 year	**1,344**	409

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the reporting period, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Morimatsu Holdings Company Limited	Controlling Shareholder
Morimatsu Industry Company Limited	Parent Company
Shanghai Nagamori Machinery Co., Ltd. (Prior named as "**Shanghai Morimatsu Pressure Vessel Co., Ltd.**")	Fellow subsidiary (till 30 June 2020)
Shanghai Morimatsu Mixing Technology Engineering Co., Ltd.	Fellow subsidiary
Shanghai Morimatsu Chemical Equipment Co., Ltd.	Fellow subsidiary
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	Fellow subsidiary
Shanghai Morimatsu Process Equipment Engineering Co., Ltd.	Fellow subsidiary
Shanghai Morimatsu Seiki Co., Ltd.	Fellow subsidiary
AMT Company Limited	Fellow subsidiary
Morimatsu Research Institution Company Limited	Fellow subsidiary
TAP Mate Limited	Fellow subsidiary
Morimatsu Houston Corporation	Fellow subsidiary
Morimatsu Dialog (Malaysia) SDN. BHD.	Joint venture
Terumoto Matsuhisa	Members of director and key management personnel
Jungo Hirazawa	Members of director and key management personnel
Hirotaka Kawashima	Members of director and key management personnel
Koei Nishimatsu	Members of director and key management personnel
Wei Hua Tang	Members of director and key management personnel
Ye Sheng	Members of director and key management personnel

Note: The English translation of the above company names is for reference only. The official names of the companies established in the PRC are in Chinese.

29 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8, is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Short-term employee benefits	**8,973**	7,705
Equity compensation benefits	**26,190**	14,281
	35,163	21,986

Total remuneration is included in "staff costs" (see Note 5(b)).

(c) Related party transactions

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Purchase of goods		
AMT Company Limited	**—**	7,349
Shanghai Nagamori Machinery Co., Ltd.	**—**	2,602
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**—**	216
Shanghai Morimatsu Mixing Technology Engineering Co., Ltd.	**—**	5,514
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	**—**	373
	—	16,054

29 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Related party transactions *(Continued)*

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Sales of goods		
Shanghai Nagamori Machinery Co., Ltd.	**—**	1,909
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**—**	62
Shanghai Morimatsu Mixing Technology Engineering Co., Ltd.	**—**	8
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	**—**	256
	—	2,235
Transfer of property, plant and equipment		
Shanghai Nagamori Machinery Co., Ltd.	**—**	136
	—	136
Purchase of property, plant and equipment		
AMT Company Limited	**—**	43
Shanghai Nagamori Machinery Co., Ltd.	**—**	600
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**—**	72
	—	715

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Purchase of intangible assets		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**—**	183
Morimatsu Houston Corporation	**—**	86
	—	269
Rental expense		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**49,288**	49,807
	49,288	49,807
Outsourcing service income		
AMT Company Limited	**—**	1,594
Morimatsu Industry Company Limited	**573**	610
	573	2,204

29 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Related party transactions *(Continued)*

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Outsourcing service expenses		
Morimatsu Houston Corporation	—	2,646
Shanghai Morimatsu Mixing Technology Engineering Co., Ltd.	—	151
Morimatsu Industry Company Limited	—	18,782
TAP Mate Limited	—	3,598
	—	25,177
Interest expense		
TAP Mate Limited	—	686
Morimatsu Industry Company Limited	—	1,611
	—	2,297

(d) Related party balances

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Amounts due to (trade):		
Morimatsu Industry Company Limited	—	190
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**59,328**	29,759
	59,328	29,949
Trade payables	**59,328**	29,949
	59,328	29,949
Amounts due to (non-trade):		
Morimatsu Industry Company Limited	—	30,018
	—	30,018
Other payables and accruals	—	30,018
	—	30,018

29 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Related party balances *(Continued)*

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Amounts due from (trade):		
Morimatsu Industry Company Limited	**302**	341
	302	341
Trade debtors net of loss allowance	**302**	341
	302	341

(e) Applicability of the Listing Rules relating to connected transactions

These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section titled "CONNECTED TRANSACTIONS" of the Directors' Report.

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000
Non-current asset			
Investment in subsidiaries	(a)	**827,968**	504,411
Current assets			
Trade and other receivables	(b)	**631,711**	384,577
Cash and cash equivalents		**265,697**	10,009
Current liabilities			
Trade and other payables		**3,921**	4,521
Contract liabilities		**385,784**	—
Interest-bearing borrowings	(c)	**345,002**	443,532
Net current assets/(liabilities)		**162,701**	(53,467)
Total assets less current liabilities		**990,669**	450,944
Net assets		**990,669**	450,944
Capital and reserves			
Share capital		**571,769**	173
Reserves		**418,900**	450,771
Total equity		**990,669**	450,944

Approved and authorised for issue by the board of directors on 25 March 2022.

Weihua Tang
Directors

Ye Sheng
Directors

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

(a) Investment in subsidiaries

Pursuant to the written resolution dated on 27 August 2021, the registered capital of Morimatsu China increased from USD59,731,000 to USD98,509,000. The capital was fully injected during 2021.

Pursuant to the written resolution dated on 6 September 2021, the Company set up a new subsidiary Morimatsu LifeScience with registered capital of HKD780,000,000. The Company injected HKD5,000,000 during 2021.

Pursuant to the written resolution dated on 24 November 2021, the registered capital of Morimatsu China increased from USD98,509,000 to USD103,000,900. The capital was fully injected during 2021.

Pursuant to the written resolution dated on 30 November 2021, the registered capital of Morimatsu Japan increased from JPY5,000,000 to JPY50,000,000. The capital was fully injected during 2021.

(b) Trade and other receivables

		As at 31 December	
	Note	**2021**	2020
		RMB'000	RMB'000
Amounts due from subsidiaries	(i)	**631,691**	384,563
Other debtors		**20**	14
		631,711	384,577

(i) As at 31 December 2021, RMB221,676,000, RMB72,000,000, RMB327,920,000, RMB70,000 and RMB10,025,000 was mainly due from Morimatsu China, Morimatsu Heavy industry, Morimatsu Pharmaceutical Equipment, Morimatsu Investment HK, and Morimatsu Japan respectively, which was eliminated in the consolidated financial statements.

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

(c) Interest-bearing borrowings

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Current			
— guaranteed bank loans	(i)	**345,002**	443,532
Interest-bearing borrowings		**345,002**	443,532

(i) As at 31 December 2021, bank loans of RMB110,001,000 from Mizuho Bank and RMB235,001,000 from Sumitomo Mitsui Banking Corporation bear interest at 4.43% and 4.10% respectively per annum. All bank loans are repayable on 31 August 2022.

As at 31 December 2020, bank loans of RMB268,312,000, RMB132,735,000, RMB33,436,000, RMB632,000 and RMB8,417,000 bear interest at 4.39%,4.20%, 2.43%, 1.09% and 2.39% respectively per annum.

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Grant of Restricted Share Units

On 5 January 2022, the Board announce that an aggregate of 29,459,700 restricted share units ("**RSUs**"), representing 29,459,700 underlying shares and approximately 2.84% of the total number of shares in issue as at the date of this announcement, were granted to 149 grantees under the RSU Scheme at nil consideration, subject to acceptance by the grantees. The grantees are existing employees of the Group.

No adjustment has been made in this financial statements in this regard.

(b) Investment of new subsidiary

On 17 January 2022, the Group set up a new subsidiary, Shanghai Morimatsu Biotechnology Co., Ltd. ("**Morimatsu Biotechnology**", 上海森松生物科技有限公司). The Company holds 78.83% shares indirectly and has control over Morimatsu Biotechnology. The register capital of Morimatsu Biotechnology is RMB8,975,000 and the primary activity is research and development of biochemical technology. The capital of RMB250,000 has been injected into Morimatsu Biotechnology.

(c) Acquisition of Morimatsu Houston Corporation

Pursuant to the equity transfer agreement dated 28 February 2022, Morimatsu Industry Company Limited, the immediate parent of the Group, transferred its entire equity interest in Morimatsu Houston Corporation, a wholly owned subsidiary of Morimatsu Industry Company Limited for a cash consideration of USD1,295,000 (approximately RMB8,187,000). Upon completion of the acquisition, Morimatsu Houston Corporation becomes a subsidiary of the Company.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING ON OR AFTER 1 JANUARY 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	01 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	01 January 2022
Amendments to HKAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	01 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	01 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	01 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	01 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	01 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	01 January 2023

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2021, the directors consider the immediate parent of the Group to be Morimatsu Industry Company Limited and ultimate controlling party of the Group to be Morimatsu Holdings Company Limited, which are incorporated in Japan. These entities do not produce financial statements available for public use.

"Adhesive"	is a polymer compound that is an inactive component of power cell electrodes and is one of the most important materials that must be used in the preparation of power cell electrodes
"AGM"	refers to the annual general meeting of the Company
"Articles of Association"	refers to the Articles of Association of the Company, as amended from time to time
"Audit Committee"	refers to the Audit Committee under the board of directors
"Biopharmaceuticals"	refers to products that are made from organisms, biological tissues, cells, body fluids, etc. by using the principles, approaches and research results of microbiology, chemistry, biochemistry, medicine and other subjects
"Bioreactor/Fermenter System"	The devices that grow animal cells, bacteria or yeast, etc. under controlled conditions, and are used to produce antibodies, vaccines, insulin or other drugs in the pharmaceutical manufacturing process
"Board"	refers to the board of directors of the Company
"CDMO"	Contract development and manufacturing organization
"CG Code"	refers to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	refers to the chairman of the Board
"Company"	refers to Morimatsu International Holdings Company Limited, a Hong Kong listed company listed on the Main Board of The Stock Exchange of Hong Kong Limited
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this annual report, refers to Mr. Matsuhisa Terumoto, Mr. Matsuhisa Hiroyuki, Morimatsu Holdings and Morimatsu Industry
"Deed of Non-Competition"	the deed of non-competition undertaking dated 10 February 2021 entered into by our Controlling Shareholders in favour of our Company, further information of which is set forth in the section headed "Directors' Report" in this annual report
"Degradable Material"	a kind of material that can meet the requirements of use in terms of properties and remain unchanged during the storage life, and can be degraded to environmentally benign substances in natural environment after being used
"Digital Operation and Maintenance"	means to apply the IoT (Internet of Things) technology to enable local or remote management of the operation, maintenance of equipment and buildings via a digital platform. This significantly improves management efficiency and level, and really achieves the purposes of cost reduction and efficiency improvement
"Director(s)"	refers to the director(s) of the Company

"Dual Carbon Commitment"	refers to China's commitment of its "dual carbon" target made in September 2020. i.e. to reach peak CO_2 emissions by 2030 and to strive to achieve carbon neutrality by 2060
"Electrolyte"	means the carrier for ion transport in a battery. It is generally composed of lithium salts and organic solvents, and as a conductor of ions between the positive and negative electrodes of a lithium battery. The electrolyte is generally composed of high purity organic solvents, electrolytic lithium salts, necessary additives and other raw materials, and is prepared under certain conditions and in a certain ratio
"Electronic Chemicals"	refers to the fine chemical products supporting the electronic industry, one of the important supporting materials for the electronic industry. The quality of electronic chemicals not only directly affect the quality of electronic products, but have significant effect on the industrialisation of the microelectronic manufacturing technology. The development of the electronic industry requires synchronisation of the electronic chemical industry. Therefore, electronic chemical has become one of the key materials prioritised by all countries around the world in order to develop the electronic industry
"EUR" or "Euro"	refers to European Monetary Unit, the lawful currency of European Union
"Global Offering"	the offer of the Shares for subscription as described in the section headed "Structure of the Global Offering" in the Prospectus
"Group"	refers to the Company and its subsidiaries
"High purity reagents"	refers to semiconductor grade electrochemical reagents. It can be divided into five categories, namely G1, G2, G3, G4 and G5, according to the ultra-clean high purity reagents SEMI international standard grade
"HKD" or "HK$"	refers to Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	refers to the Hong Kong Special Administrative Region of the PRC
"HPV vaccine	is a vaccine used to prevent human papilloma virus infection of the cervix and cervical cancer. It works mainly by inducing an antigen-antibody response in the immune response to stimulate the body to produce an immune response
"IFRS"	refers to International Financial Reporting Standards
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, the United Nations or the Government of Australia
"JPY"	refers to Japanese Yen, the lawful currency of Japan

"Listing" or "IPO"	refers to the listing of the Shares on the Main Board of the Stock Exchange on 28 June 2021
"Listing Date"	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commence, which is 28 June 2021
"Listing Rules"	refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Lithium bis(fluorosulfonyl) amide"	is used to prepare inorganic salts and organic ionic liquids containing bis(fluorosulfonyl) amide ions, which can effectively reduce the viscosity and improve the conductivity of electrolytes
"Lithium Hexafluorophosphate"	refers to an important electrolyte (the four major components of a power cell: positive electrode material, negative electrode material, electrolyte, and diaphragm) that conducts ions and electrons between the positive and negative electrodes
"Main Board"	refers to Main Board of The Stock Exchange of Hong Kong Limited
"Model Code"	refers to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Module, Modular"	The design idea and installation method for preassembling of key equipment, other components, pipe structures, electrical instruments, etc. in a manufacturing plant, so as to minimize the work quantity on project site, and reduce cost of on-site jobs and on-site failures
"Morimatsu Biotechnology"	Shanghai Morimatsu Biotechnology Co. Ltd. (上海森松生物科技有限公司), a company established in the PRC on 17 January 2022 with limited liability and an indirect non-wholly owned subsidiary of the Company
"Morimatsu Chemical"	Shanghai Morimatsu Chemical Equipment Co., Ltd. (上海森松化工成套裝備有限公司), a company established in the PRC with limited liability on 17 November 2004, which is owned by Morimatsu Seiki and 株式會社森松総合研究所 as to 80.85% and 19.15%, respectively
"Morimatsu Engineering Technology"	Shanghai Morimatsu Engineering Technology Co. Ltd. (上海森松工程技術有限公司) a company established in the PRC on 19 November 2021 with limited liability and an indirect wholly-owned subsidiary of the Company
"Morimatsu Heavy Industry"	Morimatsu (Jiangsu) Heavy Industry Co., Ltd. (森松（江蘇）重工有限公司), a company established in the PRC with limited liability on 13 May 2008 and an indirect wholly-owned subsidiary of the Company

"Morimatsu Holdings"	Morimatsu Holdings Co., Ltd. (森松ホールディングス株式会社), a company incorporated in Japan with limited liability on 1 September 2015, which is controlled by Mr. Matsuhisa Terumoto and Mr. Matsuhisa Hiroyuki by holding 80% and 20% of its voting shares, respectively, and one of our Controlling Shareholders
"Morimatsu Industry"	Morimatsu Industry Co., Ltd (森松工業株式會社), a company incorporated in Japan with limited liability on 2 May 1964, which is wholly owned by Morimatsu Holdings, and one of our Controlling Shareholders
"Morimatsu Pharmaceutical Equipment"	Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd (上海森松製藥設備工程有限公司) (formerly known as Shanghai Morimatsu Pharmaceutical Equipment Company Limited (上海森松製藥設備有限公司)), a company established in the PRC with limited liability on 29 November 2001 and an indirect wholly-owned subsidiary of the Company
"Morimatsu Pressure Vessel"	Shanghai Senyong Engineering Equipment Co., Ltd. (上海森永工程設備有限公司) (formerly known as Shanghai Morimatsu Pressure Vessel Co., Ltd (上海森松壓力容器有限公司)), a company established in the PRC with limited liability on 14 October 1990, which is owned as to 80% and 20% by Mr. Wang Guobin (王國斌) and Saima LLP, both being Independent Third Parties, respectively
"Morimatsu Seiki"	Shanghai Morimatsu Seiki Co., Ltd. (上海森松精機有限公司), a company established in the PRC with limited liability on 24 September 2019, and wholly-owned by Morimatsu Industry
"Morimatsu (China)"	Morimatsu (China) Investment Co., Ltd (森松（中國）投資有限公司), a company established in the PRC with limited liability on 7 June 2010 and a direct wholly-owned subsidiary of the Company
"Morimatsu (Suzhou) LifeSciences"	Morimatsu (Suzhou) LifeSciences Company Limited (森松（蘇州）生命科技有限公司), a company established in the PRC with limited liability on 26 September 2021, which is a direct wholly-owned subsidiary of the Company
"mRNA COVID vaccine"	refers to a nucleic acid preparation in which mRNA, representing target antigen protein, is introduced into the body's cells through a specific delivery system to stimulate the body's specific immunological response by expressing the target protein in vivo, thereby providing the body with immune protection
"Nomination Committee"	refers to the Nomination Committee of the Board
"Over-allotment Option"	refers to the over-allotment option granted by the Company to the International Underwriters (as defined in the Prospectus) exercisable by the Joint Global Coordinators (as defined in the Prospectus) (for themselves and on behalf of the International Underwriters), in respect of 37,500,000 additional new Shares, representing approximately 15% of the offer shares initially available under the Global Offering before any exercise of the over-allotment option

"Pharmadule Sweden"	Pharmadule Morimatsu AB (formerly known as"Goldcup 6476 AB"), a company incorporated in Sweden with limited liability on 3 March 2011 and a direct wholly-owned subsidiary of our Company
"Post-IPO Share Option Scheme"	refers to the post-IPO share option scheme adopted by the Company and became effective on 10 February 2021, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — Post-IPO Share Option Scheme" refers to in Appendix V to the Prospectus
"Power Battery"	refers to the power battery refers to the ternary polymer lithium battery used in new energy vehicles, which is a kind of Liion battery with three elements: nickel salt, cobalt salt, and manganese salt/lithium aluminate as its cathode materials, graphite as its anode material, and mainly lithium hexafluorophosphate as its electrolyte
"PRC"	refers to the People's Republic of China which, for the purpose of this annual report, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Pre-IPO Share Option Scheme"	refers to the pre-IPO share option scheme adopted by the Company and became effective on 1 July 2020, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — Pre-IPO Share Option Scheme" in Appendix V to the Prospectus
"Prospectus"	refers to the prospectus dated 15 June 2021 issued by the Company
"Recombinant human albumin"	means an artificial blood product that increases blood volume and maintains plasma colloid osmotic pressure in the body, and carries out the function of transportation and detoxification during the supply of nutrients in the body
"Remuneration Committee"	refers to the Remuneration Committee of the Board
"Renminbi" or "RMB"	refers to Renminbi, the lawful currency of the PRC
"Reporting Period"	refers to the period of one year from 1 January 2021 to 31 December 2021
"RSU Scheme"	refers to the restricted share unit scheme adopted by the Company on 15 December 2021
"SEK"	refers to Swedish Krona, the lawful currency of Sweden
"SFO"	refers to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholders"	refers to holders of the Shares
"Shares"	refers to ordinary shares of the Company
"Stock Exchange"	refers to The Stock Exchange of Hong Kong Limited

"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Ternary Anode Material"	means a power battery anode material consisting of ternary materials (typically NiCuMn or NiCoAl).
"Ternary Precursor"	means nickel and cobalt (aluminum) ternary complex hydroxide, the front-end material of the cathode material, which plays a decisive role in the performance of the cathode material
"USD"	refers to United States dollars, the lawful currency of the United States of America
"%"	per cent

In this annual report, unless the context otherwise requires, the terms "associate", "connected person", "connected transaction", "subsidiary" and "substantial shareholder" have the meanings ascribed to them in the Listing Rules.