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

2023
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

29/F, One Exchange Square
8 Connaught Place, Central
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
17/F, Far East Finance Centre
16 Harcourt Road, 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

AUDITOR

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

STOCK CODE

2155

Chief Executive Officer's Statement

Dear Shareholders,

On behalf of the Board (the "**Board**") of Directors (the "**Directors**") of Morimatsu International Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2023.

2023 was a year marked by significant changes. Amidst the interplay of global uncertainties, both the Asia-Pacific economy and the global landscape in the post-pandemic era encountered unprecedented opportunities and challenges. In response to the adjustments in the epidemic prevention policies of mainland China towards the end of 2022 and the beginning of 2023, the management team, in collaboration with all employees, mobilized to forge new avenues, uncovering fresh opportunities in a market riddled with supply-demand disparities. In the face of a complex international scenario, the Group relentlessly pursued market innovation, closely monitored project developments, enhanced customer engagement, and guaranteed the delivery of products both in quality and quantity. The united efforts of all teams culminated in extraordinary achievements, thereby establishing a new historical milestone.

At the beginning of 2023, the Group successfully entered into collaboration with a renowned international company specializing in renewable chemicals and biofuels technology for a modular plant project for biofuels. This project signified the Group's entry into the green energy sector, actively contributing to the journey toward sustainable development. In June 2023, the Group secured a contract with a well-known international company for a project involving lithium battery raw materials, marking the Group's inaugural export of both products and proprietary technology abroad. This development laid a solid foundation for enhanced collaboration between the two parties.

The Group is committed to providing services for the globe, with advanced manufacture bases in the Asia-Pacific region. In November 2023, Morimatsu Dialog held a groundbreaking ceremony for a plant expansion project with an investment of approximately US$60 million. The project aims to enhance the integrated engineering and manufacturing services, catering to the needs of customers both locally and internationally.

Throughout its development, the Group has prioritized the development of its talent pool, technology platform and production capacity. By engaging deeply with customers in different downstream industries, the Group is evolving from a traditional manufacturing model focused solely on product to a more integrated approach that encompasses "product + service" and "technology + product + service". In fields such as raw materials of power battery and electronic chemical, the Group supplied comprehensive product suites based on its proprietary technology to various leading domestic and international enterprises during the Reporting Period, including technology transfers, products, and on-site services. Focusing on the profound value needs of customers, actively engaging in their demand development, and facilitating the formation of supply-demand relationships with added-value features, such as technology transfers and on-site services, are critical to its strategy for achieving high-quality growth in the future.

In the face of rapidly evolving global environment, the Group acknowledges its role in the ecological chain and is committed to prudently adjusting the development strategies with the support of the capital market. The Group aims to capitalize on its strengths to actively explore new markets, new business units, and new customers. Regarding talent development, the Group plans to institutionalize internal training programs while also enhancing collaborations between academic institutions and businesses, thereby establishing a comprehensive development platform that benefits all stakeholders. Looking forward, the Group will persist in its commitment to scientific research and innovation, aligning with the ongoing innovation demands of downstream industries. The Group will strategically plan the production capacities with focus on achieving the national dual carbon objectives, integrating the principles of environmental protection and energy saving into the product offerings, and providing more diversified services to its customers. As the Group moves into the new year, its goal is to pursue steady improvement, collaborating closely with all stakeholders to achieve greater success.

Nishimatsu Koei
Chief Executive Officer

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Nishimatsu Koei (西松江英), aged 59, is an executive Director. Mr. Nishimatsu is also our chief executive officer responsible for overseeing general management and daily operation of the Group. Mr. Nishimatsu also serves as chairman and general manager of Morimatsu China, chairman of the board of Morimatsu Pharmaceutical Equipment, chairman of Morimatsu Heavy Industry and chairman of Morimatsu LifeSciences.

Mr. Nishimatsu has around 33 years of experience in pressure equipment industry. From April 1991 to November 2012, Mr. Nishimatsu served at Morimatsu Holdings. He joined Morimatsu Holdings as an officer of design department (設計部) and was promoted as the executive officer and the head of the overseas department (海外事業部) and was responsible for supervising the business expansion of Morimatsu Pressure Vessel in the PRC market. From March 2017 to March 2021, Mr. Nishimatsu was a director of Morimatsu Holdings but he did not participate in its day-to-day operations. From January 1998 to December 2009, Mr. Nishimatsu served at Morimatsu Pressure Vessel. He joined Morimatsu Pressure Vessel as an officer and was subsequently promoted as the general manager of Morimatsu Pressure Vessel and was responsible for general operation and management of client relationship maintenance. From January 2008 to December 2010, he served as the general manager of Morimatsu Chemical Equipment and was responsible for overseeing its production operations. Since October 2010, Mr. Nishimatsu has served as the general manager of Morimatsu China and is responsible for its daily management operations.

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

Mr. Hirazawa Jungo (平澤準悟), aged 40, is an executive Director. Mr. Hirazawa is also our chief finance officer responsible for overseeing financial planning and control, accounting operations and internal control systems of the Group.

Mr. Hirazawa has around 16 years of experience in accounting, auditing and financial management. From April 2008 to March 2019, Mr. Hirazawa served at Juroku Bank Ltd (株式會社十六銀行) in Japan. He joined Juroku Bank Ltd as an officer and was subsequently promoted to a manager of the inspection department and was responsible for the management of corporate financing and financial compliance. In the periods from October 2014 to October 2017 and from April 2018 to March 2019, Mr. Hirazawa was seconded to Morimatsu Holdings (being the client of Juroku Bank Ltd) and served as an accounting manager and the principal of the chairman's office (董事長室室長), respectively, where he was principally responsible for the accounting, auditing, corporate governance, financial consolidation management and general financial management of Morimatsu Holdings. From April 2019 to June 2020, Mr. Hirazawa worked as a senior finance manager of Morimatsu Holdings and was responsible for overseeing the financial planning, budget management and the general financial management. Since March 2020, Mr. Hirazawa has served as the supervisor of Pharmadule T&S. Since June 2020, he has served as the supervisor of Morimatsu China. Since September 2021, he has served as the supervisor of Morimatsu LifeSciences. Since May 2022, he has served as the director of Morimatsu Houston. Since June 2022, he has served as the director of Morimatsu Holdings. Since January 2023, he has served as the director of Pharmadule Singapore. Since October 2023, he has served as a director of Morimatsu Singapore. Since November 2023, he has served as a director of Morimatsu T&S.

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 54, is an executive Director responsible for overseeing production operations (pharmaceutical and family care industries) of the Group. Mr. Tang also holds directorship in Morimatsu Pharmaceutical Equipment, director and general manager of Morimatsu LifeSciences, chairman of Morimatsu Biotechnology, chairman of Mori-Biounion Technology, director of Pharmadule Singapore and director of Lifesciences Singapore.

Mr. Tang has over 24 years of experience in pressure equipment industry. From July 1991 to May 1999, Mr. Tang worked as a pipeline engineer at Shanghai Petrochemical Installment and Maintenance Co., Ltd (上海石化安裝檢修工程有限公司) and was responsible for pipeline related technology support. In May 1999, Mr. Tang joined Morimatsu Pressure Vessel and has since worked in the Group. From May 1999 to May 2003, he was pipeline engineer (管道工程師) and head of pipeline team (管道組組長) at Morimatsu Pressure Vessel, and was responsible for providing technology support for pressure equipment production. In January 2003 Mr. Tang was appointed as the head of system engineering department (系統工程科科長) of Morimatsu Pharmaceutical Equipment and subsequently promoted as the deputy general manager of Morimatsu Pharmaceutical Equipment since May 2008 and the general manager of Morimatsu Pharmaceutical Equipment since April 2011. Since September 2021, he has served as director and general manager of Morimatsu LifeSciences. Since January 2022, he has served as chairman of Morimatsu Biotechnology. In March 2022, he was elected as a council member by Shanghai Producer Services Promotion Association. Since May 2022, he has served as chairman of Mori-Biounion Technology. He has served as a director of Pharmadule Singapore since July 2023. He has served as the member and the vice chairman of the 8th council of the Shanghai Society of Biotechnology since October 2023. Since December 2023, he has served as a director of Lifesciences Singapore.

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. He obtained the qualification of professorate senior engineer specializing in digital technology research and development from Shanghai Municipal Human Resources and Social Security Bureau in August 2023.

Mr. Sheng Ye (盛曄), aged 49, is an executive Director responsible for overseeing production operations (chemical, oil and gas refinery and raw materials of power battery industries) of the Group. Mr. Sheng also holds directorship and general manager in Morimatsu Heavy Industry, chairman and general manager of Morimatsu Engineering Technology and a director of Morimatsu Singapore.

Mr. Sheng has around 28 years of experience in pressure equipment industry. In October 1996, Mr. Sheng joined Morimatsu Pressure Vessel and has since worked in the Group. From October 1996 to October 2010, Mr. Sheng held various positions in Morimatsu Pressure Vessel, including development engineer (開發工程師), deputy chief of the sales department (銷售部副科長) and deputy head of technology department (技術部副部長), and was responsible for monitoring research and development of customised pressure equipment and overseeing sales and marketing operations. From October 2010 to February 2017, Mr. Sheng served at Morimatsu China. He joined Morimatsu China as a deputy head of technology department (技術部副部長) and was promoted as the head of technology department (技術部部長) and the principal of technology supporting centre (技術支持中心主任). Since October 2018, Mr. Sheng has served as the general manager of Morimatsu Heavy Industry and is responsible for supervising and management of sales, design and manufacture of new materials. Since November 2021, he has served as chairman and general manager of Morimatsu Engineering Technology. From July 2023 to March 2024, he has served as a director and the chief executive officer of Pharmadule Singapore. Since March 2024, he has served as a director of Morimatsu Singapore.

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 53, is an executive Director responsible for production capacity guarantee and environmental, social and governance issues of the Group. Mr. Kawashima also holds directorship in Morimatsu China, Morimatsu Dialog and Morimatsu T&S, respectively.

Mr. Kawashima has around 28 years of experience in pressure equipment industry. From March 1996 to October 2003, Mr. Kawashima served at Morimatsu Holdings, where he served as an officer of quality control department and was promoted as a manager of overseas department thereof in October 2003. In October 2003, he was designated to serve Morimatsu China and has since served as the head of production department (生產部部長), the principal of the chairman's office (董事長室室長) and vice general manager of Morimatsu China. Since September 2021, he became a director of Morimatsu Dialog. Due to the internal organizational adjustment of Morimatsu China, he no longer served as the head of production department and principal of the chairman's office of Morimatsu China since January 2023. Since December 2023, he has served as a director of Morimatsu T&S.

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

Mr. Matsuhisa has over 38 years of experience in business operation and corporate management. After graduation in March 1986, Mr. Matsuhisa commenced his career with Morimatsu Holdings. He then served from January 1989 to January 1992, as a chief of corporate planning department (經營企劃室長) of Morimatsu Holdings, and from January 1992 to September 1993, as a head of the overseas business department (海外事業部部長) and the director thereof. Mr. Matsuhisa was appointed as the general manager of Morimatsu Pressure Vessel in September 1993 and subsequently as the executive vice president thereof in November 1997. Since August 2013, Mr. Matsuhisa ceased his management position in Morimatsu Pressure Vessel. Mr. Matsuhisa is currently the executive director and chief executive officer of Morimatsu Holdings and holds various positions in the subsidiaries of Morimatsu Holdings (other than the Group).

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

Independent Non-executive Directors

Ms. Chan Yuen Sau Kelly (陳遠秀), aged 53, was appointed as our independent non-executive Director on 10 February 2021. She is also the chairperson of the audit committee and a member of the remuneration committee of our Board.

Ms. Chan has over 30 years of experience in financial and business management. She 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 1992. She 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 previously responsible for management at various multinational corporations, including serving as the chief financial officer at LVMH Moet Hennessy Louis Vuitton Group and Heineken Group. Ms. Chan also served at branches of Deloitte Touche Tohmatsu in Hong Kong and the United States. Ms. Chan is currently the managing director of Peony Consulting Services Limited, a company which is principally engaged in provision of business advisory services.

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), the H shares of which are listed on the Stock Exchange (stock code: 2600) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601600), an independent non-executive director of China Merchants Port Holdings Company Limited (招商局港口控股有限公司), the shares of which are listed on the Stock Exchange (stock code: 0144) and an independent non-executive director of Best Mart 360 Holdings Limited (優品360控股有限公司), the shares of which are listed on the Stock Exchange (stock code: 2360).

In October 2020, Ms. Chan was appointed as a Justice of the Peace by the Hong Kong government in recognition of her remarkable public services and contribution to the community. In March 2022, Ms. Chan was awarded with Advocacy Award for the China region by the ACCA in recognition of her relentless support for the accountancy profession. Ms. Chan was the president of ACCA Hong Kong from 2008 to 2009 and was the president of the Association of Women Accountants (Hong Kong) ("**AWA**") from 2020 to 2021. She is currently the council member of the AWA and the vice chairman of Shenzhen Hong Kong Macau Women Directors Alliance.

Ms. Chan is currently the chairperson of the Employees' Compensation Insurance Levies Management Board. She also serves on the boards of the Air Transport Licensing Authority, Hong Kong Repertory Theatre and United College of the Chinese University of Hong Kong. Ms. Chan was previously a member of the Council of the Chinese University of Hong Kong, Education Commission, Quality Education Fund Steering Committee, Harbourfront Commission, Advisory Committee on Arts Development of Hong Kong, the board of the Inland Revenue Department, the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of Hong Kong, Hospital Governing Committee of the Buddhist Hospital, Hospital Governing Committee of the Rehabaid Centre, the Kowloon Regional Advisory Committee of the Hospital Authority, Occupational Safety and Health Council and the board of directors of Ocean Park Hong Kong.

Mr. Kanno Shinichiro (菅野真一郎), aged 80, was appointed as our independent non-executive Director on 10 February 2021. Mr. Kanno is responsible for supervising the management of the Group and providing independent judgment to our Board. He is also a member of the audit committee and nomination committee of our Board.

Mr. Kanno has over 58 years of experience in the financial and banking industry. From April 1966 to March 2002, Mr. Kanno worked at the Industrial Bank of Japan Ltd ("**IBJ**") and held various positions, including counselor of several branch offices in Japan, manager and the chief representative of the Shanghai branch office, the director and chairman of the Chinese committee (中國委員會), and the executive director and senior counselor of IBJ, and was principally responsible for developing new financial products, analyzing financial policies, and facilitating and monitoring the expansion of the financial services of IBJ in the PRC market. In April 2002, IBJ and two other Japanese banks merged into a new entity, namely, Mizuho Financial Group (株式会社みずほフアイナンシャルグープ) ("**MF**") whose shares are listed on several stock exchanges, including the Tokyo Stock Exchange (stock code: 8411) and the New York Stock Exchange (stock code: MFG), and he then served from April 2002 to August 2002 as the chief executive officer of Mizuho Human Service Ltd, a subsidiary of MF in Japan, and from September 2002 to August 2012 as an advisor of Mizuho Bank Ltd (瑞穗銀行有限公司), a subsidiary of MF in Japan. From September 2012 to March 2023, he served in the Tokyo International University (東京國際大學) and is currently a distinguished professor (formerly referred to as adjunct professor) thereof. Since June 2021, he has held the position of supervisor of Toyodenso Co., Ltd. (東洋電装株式會社, a non-listed company).

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

Mr. Yu Jianguo (于建國), aged 63, was appointed as an independent non-executive Director on 10 February 2021. Mr. Yu is responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee of our Board.

Mr. Yu has over 25 years of experience in chemical and environmental protection industries. Mr. Yu is a tutor of East China University of Science and Technology (華東理工大學) ("**ECUST**") for doctoral candidates. He had served a number of roles and positions in different departments of ECUST, including the director of its science and technology department (華東理工大學科技處處長), the director of its national technology transfer centre (華東理工大學國家技術轉移中心), the dean of its college of resources and environmental engineering (華東理工大學資源與環境工程學院院長), the vice-president (副校長) and the dean of its post-graduate school (研究生院) of ECUST. Mr. Yu is also currently the director of the National Salt Lake Resources Comprehensive Utilisation Engineering Technology Research Center of ECUST (華東理工大學國家鹽湖資源綜合利用工程技術研究中心), the director of the National Environmental Protection Key Laboratory of Chemical Process Risk Assessment and Control (國家環境保護化工過程風險評價與控制重點實驗室), and the director of the Resource Process Engineering Research Center of the Ministry of Education (教育部資源過程工程研究中心). Academic part-times of Mr. Yu include the deputy director of Inorganic Salt Professional Committee of China Chemical Industry Association (中國化工學會無機鹽專業委員會), and the vice-chairman of Shanghai Chemistry and Chemical Industry Association (上海市化學化工學會). Mr. Yu is also an expert in the field of resources and environment in the "11th Five-Year Plan" period of the National 863 Programme (國家863計劃) and an expert in the subject-matter experts of "12th Five-Year Plan" resources, and a member of the Second Science and Technology Committee of the Ministry of Education (教育部科技委).

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

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

SENIOR MANAGEMENT

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

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

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap (李凱納), aged 39, was appointed as a joint company secretary of the Company on 25 September 2020. Mr. Lee has over 15 years of experience in the accounting and financial management industry. He is a chartered secretary and a member of both The Hong Kong Chartered Governance Institute ("**HKCGI**") (formerly known as "The Hong Kong Institute of chartered secretaries") and The Chartered Governance Institute ("**CGI**") (formerly known as "The Institute of Chartered Secretaries and Administrators") in the United Kingdom of Great Britain and Northern Ireland ("**UK**"). In February 2009, Mr. Lee joined Morimatsu Holdings as a management trainee and was assigned to a job rotation. From February 2009 to July 2010, Mr. Lee served as an accountant of Morimatsu Holdings and was responsible for account management. From July 2010 to June 2016, Mr. Lee was designated as a financial manager of Morimatsu China and was responsible for overseeing financial analysis, feasibility study, accounting and financial compliance. From June 2016 to November 2017, Mr. Lee served as the chief finance officer of Pharmadule Sweden and was responsible for financial planning and financial risk management. From November 2017 to June 2020, Mr. Lee was designated as the financial manager of Morimatsu Holdings and was responsible for collection and reporting of financial and accounting information of our overseas companies to Morimatsu Holdings. Since June 2020, for purpose of the Listing, Mr. Lee was designated back to the Company as a manager and is responsible for management of accounting and compliance matters. Mr. Lee obtained a dual bachelor's degree in laws and commerce from the University of New South Wales in Australia in August 2007. He subsequently obtained a master's degree in professional accounting and corporate governance from the City University of Hong Kong in Hong Kong in October 2017. Mr. Lee was admitted as a lawyer of the Supreme Court of New South Wales in February 2015 and was also admitted as a certified practising accountant from the Australian Society of Certified Practising Accountants in December 2018.

Ms. Lau Wai Yee (劉惠儀), aged 58, was appointed as a joint company secretary of the Company on 25 September 2020. Ms. Lau is a director of Immanuel Consulting Limited, a licensed company service provider specialising in integrated business and corporate services. Ms. Lau has over 36 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Her expertise extends from corporate advisory and regulatory compliance, corporate restructuring to dissolution of companies. Ms. Lau is a chartered secretary and a fellow of both HKCGI and CGI in the UK and fellow of The Hong Kong Institute of Directors. Ms. Lau has been appointed as the company secretary of Shanghai Realway Capital Assets Management Co., Ltd., the shares of which are listed on the Stock Exchange (stock code: 1835) since 13 October 2019.

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years. The financial information for the years ended 31 December 2023 is extracted from consolidated financial statements in this Annual Report. The financial information for 2019 to 2021 were restated accordingly due to the completion of acquisition of 100% equity interest in Morimatsu Houston on 28 February 2022.

	For the year ended 31 December				
RESULTS	2019 RMB'000 (restated)	2020 RMB'000 (restated)	2021 RMB'000 (restated)	2022 RMB'000	**2023** **RMB'000**
Continuing operation					
Revenue	2,826,380	2,983,045	4,286,222	6,486,277	**7,360,262**
Gross profit	602,939	851,169	1,183,583	1,793,386	**2,055,704**
Profit before taxation	166,332	341,815	449,143	760,917	**984,334**
Profit from continuing operations	141,240	289,756	381,838	666,182	**842,548**
Discontinued operations					
Profit/(loss) from discontinued operations	5,673	—	—	—	**—**
Profit/(loss) for the year	146,913	289,756	381,838	666,182	**842,548**
Profit/(loss) for the year attributable to					
Equity shareholders of the Company	149,398	289,756	381,838	669,266	**844,684**
Non-controlling interests	(2,485)	—	—	(3,084)	**(2,136)**
	146,913	289,756	381,838	666,182	**842,548**

	As at 31 December				
FINANCIAL POSITION	2019 RMB'000 (restated)	2020 RMB'000 (restated)	2021 RMB'000 (restated)	2022 RMB'000	**2023** **RMB'000**
Total assets	3,280,177	3,041,801	5,704,508	7,960,582	**8,932,076**
Total liabilities	2,574,222	2,044,526	3,696,699	5,137,936	**4,541,467**
Net assets	705,955	997,275	2,007,809	2,822,646	**4,390,609**
Attributable to equity shareholders of the Company	705,955	997,275	2,007,809	2,815,730	**4,382,491**
Non-controlling interests	—	—	—	6,916	**8,118**
Total equity	705,955	997,275	2,007,809	2,822,646	**4,390,609**

DEVELOPMENT VISION

The Group is committed to providing downstream customers with core equipment, high value-added process solutions, integrated digital intelligent plant solutions (including process packages), and value-added services covering the entire life cycle. Moving beyond the traditional pre-sales consultations, equipment production, and after-sale maintenance/repair services, the Group has advanced to become a supplier and service provider capable of delivering tailored services closely aligned with customer needs, such as joint research and development, technical advices, optimization of technologies, solutions for consumables, and support for digital operations and maintenance. With its robust design and development capabilities and extensive experience in project execution, the Group is set to further delve into technology-driven outputs and transform towards a service-oriented manufacturing model. This development aims to facilitate a more seamless, efficient, environmentally friendly and health-conscious path to sustainable development for downstream industries.

BUSINESS STRATEGY

Empowering Downstream Industries with the MVP Model

The Group actively serves the continuous innovation needs of downstream industries, from a single piece (set) of equipment to integrated systematic solutions, empowering customized products based on individual needs in various fields with diversified value services.

Machines — Core equipment

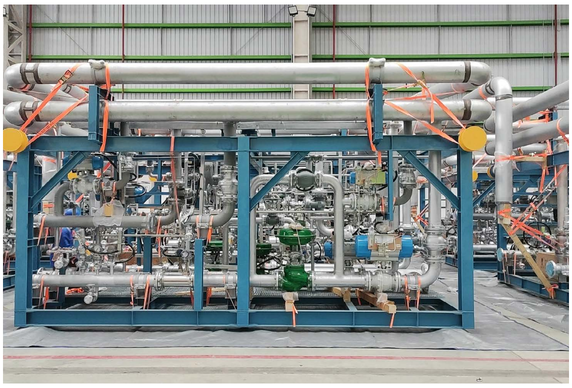
Designed to achieve theoretical heat transfer and mass transfer effects in large-volume equipment, core equipment aims to realize a synthesis process of new materials that is based on theory and is feasible at the level of laboratory practice under process-level production scale. Such equipment mainly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

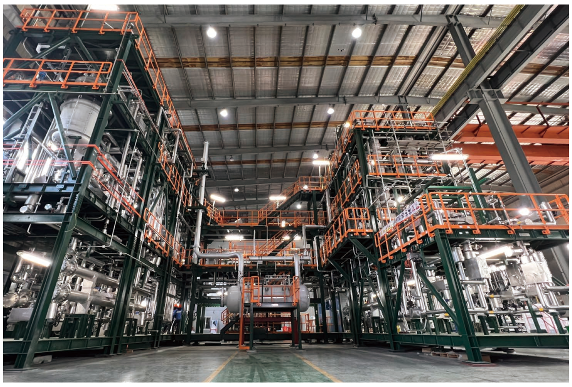
Values — Value-added Services/Value Empowerment

The Group identifies the deep-rooted needs of downstream industries from a multi-dimensional perspective, and, in addition to physical products, provides customers with various forms of support services and other services customized based on individual needs, including modular solutions, devices for industrialized small-scale tests and pilot tests, and desktop solutions, to help customers achieve optimal configuration in terms of technical feasibility, cost optimization and delivery methods. At the same time, such services also reduces management and communication interfaces during project execution, simplifies project execution processes and reduces execution risks. Looking into the future, the Group will work with customers to promote the improvement and technological upgrading of products and systems. Application scenarios include modular overseas engineering centers in the field of raw materials of power battery and pilot production devices for raw materials for lithium batteries, complete sets of process equipment in the industry/field of family care and biopharmaceuticals, process modular products for the oil and gas refinery and chemical industries, and complete solutions for the field of semiconductor high-purity chemical reagents.

Plants — Highly Integrated Systematic Solutions

This is an extreme industrial product that provides a one-stop (front-end service + physical product + back-end service) systematic solution to meet the needs of downstream customers for commercialization of their products, covering the entire process from process design and plant design to core equipment delivery, system manufacturing/installation/commissioning/certification to operation and maintenance management, as well as continuous optimization. These systematic solutions can cover the entire life cycle of specific products and technologies, and enhance upstream and downstream interconnectivity, significantly enhancing the adhesion between the Group and its customers, as well as continuously updating and iterating the Group's products and technologies in response to the continuous innovation needs of its customers. The one-stop systematic solutions provided by the Group are compatible with regulations and industry standards in multiple countries according to customer needs and, except for the necessary on-site construction, will be manufactured in the Group's factories as far as possible, thus possessing unique advantages in terms of stability in the supply chain, project economics, and safety of deliveries, helping customers rapidly deploy production capacity, realize new technologies and launch new products globally. The Group's experience and strengths in the design and manufacture of core equipment in multiple fields and in the execution of overseas projects for multiple markets further enhanced the reliability of systematic solutions. Application scenarios for systematic solutions include modern biopharmaceutical plants, factories for daily chemical products, fine chemical production plants and plants for the production of raw materials for power batteries.





New Business Model of *MVP Solutions+* (Complete Products + Technology Transfer + Continual Services)

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

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

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

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

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

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

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

Leveraging the extensive technical expertise, ongoing in-house research, joint research and development with universities at home and abroad, and the introduction of advanced technologies from around the world, the Group has developed its proprietary process packages. During the reporting period, the Group provided a range of complete and systematic products manufactured using its proprietary process packages to numerous renowned customers globally, covering fields including raw materials of power battery, electronic chemicals (photovoltaic sector), and other sectors in the new energy industry.

The Group is advancing its technology transfer business, capitalizing on its proprietary process packages to enhance competitiveness and resilience against market cycles. When capacity expansion among downstream customers is constrained, the Group enriches the value attributes of orders to further increase volume and profitability of these orders, ensuring steady growth of the Group amidst fluctuating supply and demand conditions, while also facilitating rapid growth in profitability. The application of technology transfer through the process packages not only improves the sales performance of products but also deepens relationships with downstream customers and the industry, fostering customer stickiness beyond the price-service relationship. Moving from creating value for customers to co-creating new supply and demand relationships with them, the Group becomes integrally linked with their core values, playing a vital role in the evolution of the downstream industry. As a result, the Group's business development is decoupled from the constraints of physical production capacity and the cyclical demands of specific industries and customers. The Group is committed to offering the downstream sector more flexible products, technologies, and services, thus enhancing the competitive landscape, and reinforcing the sustainability and diversity of corporate development.

Process Packages

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

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

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

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

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

(4) Specialty chemical materials.

Digital EPCOO Services for the Entire Lifecycle

Based on the needs of downstream customers, the Group has expanded its digital platform to cover two additional "O" stages, namely Operation and Optimization, on top of the traditional EPC (Engineering, Procurement, Construction) services, enabling it to provide downstream customers with comprehensive solutions and digital services throughout the entire lifecycle of project construction and plant operation.

Procurement

· Supply chain management
· Warehousing and logistics
· Material tracking and batch management

Construction

· Process verification, foolproofing and error correction
· Process recording
· Visualized construction
· Remote inspection and debugging
· Digital installation

Design

· Digital design
· Simulation and virtual reality ("**VR**") demonstration
· Remote collaborative review
· Technical documentation

Operation

· Electronic batch records
· Predictive maintenance
· Operational training
· Spare parts and supplies
· Asset management
· Instrument calibration
· Remote diagnosis
· Data and system security

Optimization

· Process analysis
· Production efficiency analysis
· Fault analysis
· Energy and material consumption analysis

Digital Solutions for Construction

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To ensure customers to understand product designs with ease from the inception of the project, the Group has introduced an immersive design review system. This system allows for the import of three-dimensional models at the design stage, which can then be seamlessly converted into a VR review program through data integration. Customers can navigate the virtual prototype of the plant being designed, evaluating the rationality of the internal device/pipeline layout and the practicality of spaces allocated for equipment operation and maintenance. The deployment of this system not only enhances communication and enriches the design experience between the Group's project design team and customers but also enables the project design team to reduce potential design flaws, fostering ongoing optimization and improvement. This will significantly enhance the project experience for customers.

In the procurement and construction stages of the project, the Group capitalizes on its robust capabilities in electromechanical integration, utilizing cutting-edge technologies such as robotics, industrial cameras, and machine vision, to deliver intelligent workstation services powered by the Group's proprietary algorithms. These services automate a wide range of tasks, from item transfer and warehouse operations to material handling in various scenarios. During the construction process, the real-time operational status of the project is captured into a comprehensive panorama system by utilizing 720° panoramic photography technology. Information such as key device documents, drawings and production processes are recorded and uploaded to the system platform through the wireless network terminals. Customers can access the platform to monitor the project construction process from anywhere at any time.

Digital Solutions for Operations and Maintenance

The Platinum Digital Library system platform developed by the Group streamlines information flow across different project modules, process stages, and equipment attributes. It tracks and records project changes efficiently, providing customers with quick, contactless and visually accessible information. The system guarantees a smooth exchange of information, significantly reducing the time engineers or operators spend searching for documents or data and reducing the risk of inaccuracies due to data loss during transmission. By integrating asset management with project completion records, this platform is instrumental in upholding the integrity of project delivery and facilitating accurate equipment fault diagnosis.

Digital Twin Equipment Service (Intelligent Plant)

The Group's digital services are designed to encompass the entire lifecycle of a plant, from its construction to its operation. Every physical asset within the plant is mirrored by a digital twin, ensuring a comprehensive integration between the tangible and digital aspects of the plant. By leveraging a digital delivery platform, the Group ensures effective management of project process data and deliverable quality, setting a robust information base for future digital operations and maintenance. The value of digital delivery lies in the development of a rapid information exchange network centralized around the engineering asset.

Continual Services empowered by Digital Platform

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

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

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

PERFORMANCE AND GROWTH IN PRINCIPAL FIELDS

The Group is principally engaged in the design, manufacture, installation, operation and maintenance services, which is mainly applied to the core process equipment, process systems (such as process modules) and comprehensive solutions (such as modular industrial devices) including chemical reactions, bio-reactions and polymerization reactions. The downstream industries/fields currently served by the Group include oil and gas refinery, family care, new chemical materials, pharmaceutical (including biopharmaceutical and synthetic chemical drugs), raw materials of power battery (including metallic ores, lithium battery raw materials and intermediate chemical raw materials) and electronic chemicals (including the production of photovoltaic raw materials and high-purity chemical reagents), etc.

Set out below is the amount of new orders of the major downstream industries/fields for the Reporting Period and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts as at 31 December 2023. The growth of the Group's business is mainly attributable to the industries/fields of pharmaceutical and biopharmaceutical and chemicals. As at the end of the Reporting Period, the amount of new orders in these two industries/fields accounted for more than 50% of the total amount of the Group's new orders.

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

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

Raw materials of power battery include mining and metallurgy industry.

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

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

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

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

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

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

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

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

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

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

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

PRINCIPAL SECTORS AND CORE PRODUCTS

Energy and materials

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

Clean energy

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

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

Raw materials of power battery

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

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

Oil and gas refinery

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

New chemical materials

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

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

Life science

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

Pharmaceuticals and biopharmaceuticals

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

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

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

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

Environmental protection

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

Electronic chemicals

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

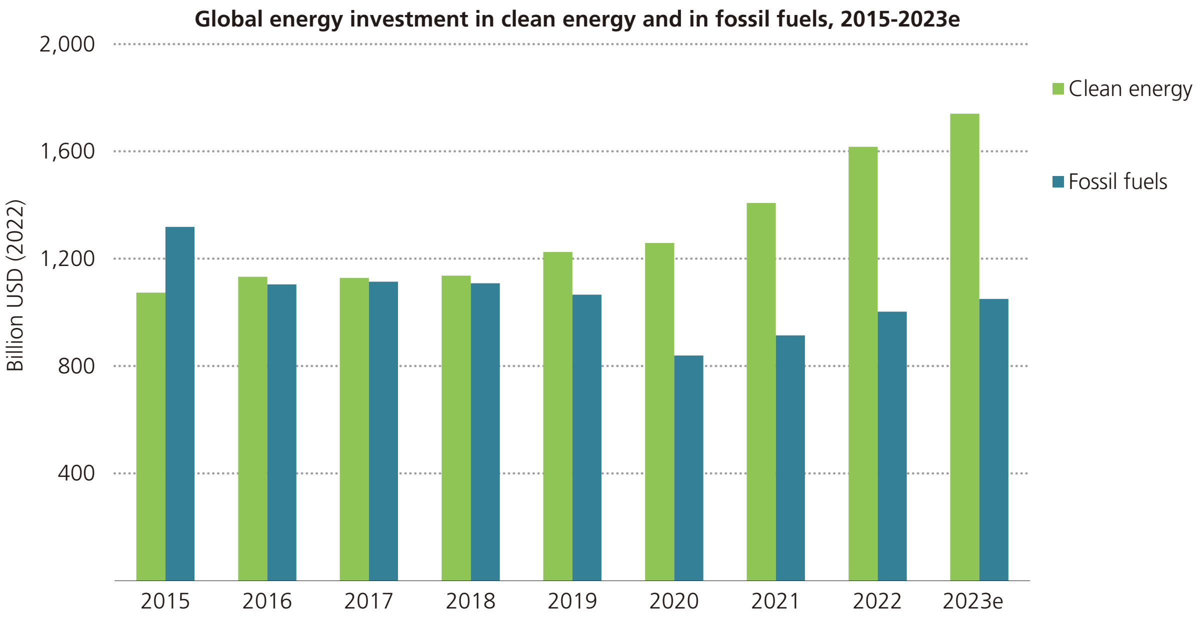
MACRO POLICIES AND MARKET OUTLOOK OF KEY DOWNSTREAM INDUSTRIES/ FIELDS

During the Reporting Period, the Group paid close attention to the macroeconomic policies, industry trends, and market dynamics, with focus on fields including energy and materials, pharmaceuticals, and electronic chemicals. Employing a business strategy of diversified operations, the Group could agilely adjust its strategies and plans in response to market changes. It continuously explored potential opportunities, striving to maintain steady business growth and to provide services to support the capacity expansion and technological iterations in downstream industries.

Energy and materials

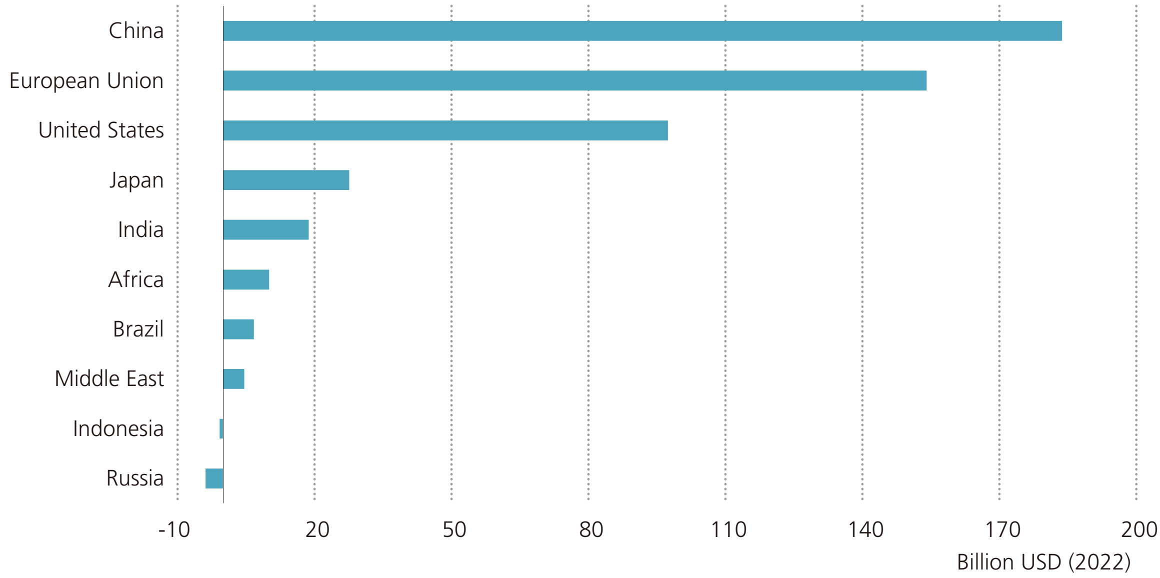
Clean energy

According to the report of World Energy Investment 2023 published by the International Energy Agency ("**IEA**") on 20 September 2023, the global investment ratio between clean energy and fossil fuels, which stood at approximately 1:1 in 2018, is projected to increase to 1.7:1 by 2023. This projection suggests that for every dollar invested in fossil fuels, US$1.7 will be directed towards clean energy initiatives. Despite the strong growth in clean energy investment, there is a significant imbalance in investment levels across countries, with more than 90% of clean energy investments between 2021 and 2023 originated from developed economies and China. Without an accelerated transition to clean energy in other regions, the global energy landscape may encounter new development imbalances.



Note: 2023e = estimated values for 2023.

Increase in annual clean energy investment in selected countries and regions, 2019-2023e



Note: 2023e = estimated values for 2023.

Furthermore, the IEA anticipates that daily investments in solar energy will exceed US$1 billion in 2023 (amounting to US$380 billion for the year), marking the first instance of solar energy investments outpacing those in upstream oil. Moreover, there is a growth in solar energy investments in India and clean energy investments in Brazil and certain parts of the Middle East.

The Financing Clean Energy in Africa released by the IEA on 3 September 2023 states that, to meet the energy development and climate objectives in Africa, investment in the local energy sector shall be increased by more than a double by 2030 from the current level of US$90 billion, with nearly two-thirds of the funding allocated to clean energy projects by then.

Considering the global trends in energy investment, the Group is confident in its future performance in the clean energy sector. The Group's modular plants are positioned to address the labor shortages in underdeveloped regions globally, catering to the needs of industrial upgrades for downstream industries, and further enhancing the Group's capabilities in developing clean energy.

Raw materials of power battery

According to a research report of Ping An Securities Co., Ltd. ("**Ping An Securities**") dated 1 June, 2023, the global market for new energy vehicle continues to experience robust growth. Ping An Securities forecasts global sales of new energy vehicles to reach approximately 14.224 million, 17.546 million, and 21.005 million units in 2023, 2024, and 2025, respectively, with year-on-year growth rates of approximately 35.2%, 23.3%, and 19.7%. Based on the demand for new energy vehicle production, the anticipated global shipment of power batteries is expected to reach approximately 968.4, 1,248.7, and 1,515.8 gigawatt-hours ("**GWh**") in 2023, 2024, and 2025, respectively, with year-on-year increases of approximately 41.7%, 28.9%, and 21.4%.

The report underscores the sustained growth rate of power batteries, driven by the rapid expansion of the new energy vehicle sector: (1) In 2021, a surge in domestic demand for new energy vehicles led to annual sales of approximately 3.52 million units, significantly increasing power battery shipments to 220GWh, representing a year-on-year increase of approximately 176.4%. (2) In 2022, the continued robust growth in new energy vehicles propelled domestic power battery shipments to approximately 465.5GWh, a year-on-year increase of approximately 111.6%, with exports reaching approximately 68.1GWh, accounting for approximately 14.6% of domestic power battery shipments. (3) The domestic sales of new energy vehicles are projected to reach approximately 9.078 million, 11.192 million, and 13.216 million units in 2023, 2024, and 2025, respectively, with year-on-year growth rates of approximately 31.8%, 23.3%, and 18.1%. Furthermore, driven by a surge in power battery exports, domestic power battery shipments are posed to reach approximately 666.7, 834.6, and 988.7GWh between 2022 and 2025, with year-on-year growth rates of approximately 43.2%, 25.2%, and 18.5%, respectively.

The research report of Guosen Securities Co., Ltd. dated 14 January 2023 highlights a significant surge in demand for power batteries driven by the objective of carbon neutrality of China, signaling the imminent expansion of the lithium battery recycling sector. Under the guidance of the "dual carbon" policy, China's new energy vehicle industry has entered an era of rapid expansion, with the penetration rate of new energy vehicles sales reaching approximately 23% in the third quarter of 2022. Projections from 2019 to 2025 indicate a rise in the total installed capacity of retired power batteries in China from approximately 0.2GWh to approximately 52.0GWh, with a 6-year compound annual growth rate ("**CAGR**") of approximately 154.4%, pointing towards an upcoming surge in power battery disposal. Moreover, adhering to policies for pollution control and carbon reduction, the recycling of lithium battery is posed to unlock substantial economic value due to the scarcity of native minerals such as nickel, cobalt, and lithium in China and the high prices of these metals driven by the increasing battery demand. The market size of power battery recycling in China is estimated to be approximately RMB14.6 billion in 2022, with a theoretical increase to approximately RMB140.6 billion by 2030. Similarly, the overall market size of lithium battery recycling is estimated to be approximately RMB31.4 billion in 2022, with a theoretical increase to approximately RMB235.1 billion by 2030.

The continuous growth in new energy market demand at home and abroad, coupled with the vast and projected growth of the lithium battery recycling market, presents promising business growth opportunities for the Group in the future.

Life science

Amidst urbanization, improvements in medical standards and the extension of human lifespans, the global population is experiencing rapid growth. According to the forecasts of the United Nations, the world population will reach approximately 8.5 billion by 2030 and further expand to approximately 9.7 billion by 2050. At the same time, there is a shift towards aging population globally, with both the number and proportion of the elderly increasing in almost every country. According to World Population Prospects 2022 published by the United Nations, the growth rate of individuals aged 65 and above is surpassing that of those under 65. It is projected that by 2050, the share of the global population aged 65 and above will increase to approximately 16% from approximately 10% in 2022.

According to the population structure data for 2023 published by the National Bureau of Statistics of China ("**NBS**") on 17 January 2024, by the end of 2023, China's population was approximately 1,409.67 million, of which approximately 216.76 million were aged 65 and above, accounting for approximately 15.4% of the total population. According to the data of 2018 released by NBS on 21 January 2019, the population aged 65 and above was approximately 166.58 million, accounting for approximately 11.9% of the total population. The CAGR of the population aged 65 and above from 2018 to 2023 was approximately 5.41%. The rapid pace of aging will bring a huge demand for medical and healthcare services.

According to the Opinions on Further Optimizing the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment (the "**Opinions**") published by the State Council of China on 13 August 2023, the Chinese government supports foreign investors in developing research and development centers in China to engage in technological research, development and industrial application in collaboration with domestic enterprises, and encourages foreign invested enterprises and their research and development centers to undertake major scientific research projects. Moreover, the Opinions advocate for the accelerated implementation of foreign investment projects in the biopharmaceutical sector in compliance with relevant laws and regulations. It encourages foreign invested enterprises to conduct clinical trials in China for cell and gene therapy drugs already marketed abroad, and urges for optimization of the application procedures for drug marketing registration for overseas manufactured drugs transferred to domestic manufacturing.

The National Medical Products Administration ("**NMPA**") of China issued the Circular on Matters Related to the Application for Drug Marketing Registration for Overseas Manufactured Drugs Transferred to Domestic Production (Draft) for public comment (the "**Draft for Public Comment**") on 24 January 2024. The key provisions include (1) domestic applicants are required to submit applications for drugs manufactured overseas but already marketed domestically and intended for domestic manufacturing according to the requirements and procedures for drug marketing registration; (2) for drugs already marketed domestically and transferred to domestic manufacturing, applicants shall submit the original registration application data of overseas manufactured drugs for relevant pharmaceutical, non-clinical, and clinical research data (when applicable), along with the research data concerning the transfer to domestic manufacturing; and (3) NMPA will prioritize the review and approval of applications for marketing registration of original research chemical drugs and biological products that are transferring to domestic manufacturing. The Draft for Public Comment further improves the foreign investment framework, enhancing the opportunities of cooperation between overseas companies and Chinese CDMO enterprises, thereby boosting the attractiveness of China as a manufacturing base for the global supply chain.

According to the research report of Pacific Securities Co., Ltd. ("**Pacific Securities**") dated 12 January 2024, driven by the aging population and a notable increase in chronic diseases such as obesity and diabetes in China, the market for coronary intravascular lithotripsy ("**IVL**") is expected to experience rapid growth. According to data from Frost & Sullivan cited in the report, the global market for IVL used in treating coronary artery disease expanded from approximately US$1.7 million in 2017 to approximately US$64.1 million in 2020, with a CAGR of approximately 235.3%, and is anticipated to reach about US$3.347 billion by 2030. The potential IVL market in China for coronary artery disease is projected to increase from approximately RMB225 million in 2023 to approximately RMB918 million in 2025, with a CAGR of approximately 102.1%, and will further increase to approximately RMB4.575 billion by 2030, with a CAGR of approximately 37.9% from 2025 to 2030, illustrating a vast market potential for IVL in the future.

Based on the above data, the global market demand for the pharmaceutical industry will continue to grow. As demographic shifts occur and supported by relevant policies, the aspiration for a healthy life will fuel the robust growth in the pharmaceutical industry in the long term.

Electronic chemicals

Semiconductor materials are categorized into wafer fabrication materials and packaging materials. Wafer fabrication materials include, among others, semiconductor silicon wafers, photomasks, wet electronic chemicals, specialty gases, photoresists, target materials, and chemical mechanical polishing materials. In particular, wet electronic chemicals are used in wet processes such as wet etching, cleaning, developing and stripping. These chemicals are distinguished by their high purity of over 99.99%, and are primarily utilized in the integrated circuit, photovoltaic panel, and display panel industries. The purity and cleanliness of these chemicals are vital for ensuring the yield, electrical performance, and reliability of electronic components.

The research report of China Chuancai Securities Co., Ltd. dated September 1, 2023 mentions that according to a report TECHCET, an advisory research firm specializing in electronics materials, the global photoresist market is expected to rebound in 2024 with a growth of approximately 7%, and the market value will reach approximately US$2.57 billion. According to the research report, photoresist is a crucial material in integrated circuits. It serves as a pattern medium in the lithography process of chip manufacturing, making it an indispensable material. The production of 8-inch/12-inch wafers requires KrF and ArF photoresists, and the global expansion of 8-inch/12-inch wafer fabs will stimulate the demand for KrF and ArF photoresists. The report further mentions that according to the 300mm Fab Outlook to 2026 issued by Semiconductor Equipment and Materials International, the global capacity for 300mm (12-inch) wafer fabs is expected to increase to approximately 9.6 million pieces per month by 2026. In addition, global semiconductor manufacturers are expected to increase the capacity of 200mm wafer fabs by approximately 20% from 2021 to 2025, and there will be an addition of 13 new 200mm production lines, with capacity expected to exceed 7 million pieces per month. In the future, KrF and ArF photoresists will become the key competitive markets for manufacturers both domestically and abroad. According to the data of TECHCET, by 2025, the market size of KrF/ArF photoresists is expected to reach approximately US$0.907 billion/US$1.072 billion. With China's wafer fabs at the forefront of this expansion globally, the demand for photoresists is expected to grow more rapidly. Pacific Securities suggests that as the wafer manufacturing scale continues to grow, China is poised to play a crucial role in the transition of the semiconductor photoresist supply chain.

The development of new energy storage is rapidly advancing. According to the data announced at a press conference held by the National Energy Administration of China on 25 January 2024, by the end of 2023, the total installed capacity of new energy storage projects in China was approximately 31.39 million kilowatts ("**KW**")/66.87 million kilowatt-hours ("**KWh**"), with an average storage duration of approximately 2.1 hours. In 2023, the newly installed capacity was approximately 22.6 million KW/48.7 million KWh, representing an increase of over 260% compared to the end of 2022, nearly ten times the installed capacity at the close of the 13th Five-Year Plan. In terms of investment scale, since the start of the 14th Five-Year Plan, the additional installed capacity of new energy storage projects has directly spurred over RMB100 billion in economic investment, further expanding the upstream and downstream industrial chains and becoming a new engine for economic development.

According to a research report of Dongwu Securities Co., Ltd. dated 3 January 2024, the growth rate of photovoltaic demand will slow down in 2024 and the installed capacity of photovoltaic will be increasing steadily. It is estimated that the installed capacity in China will be approximately 205 gigawatts ("**GW**") in 2024, with a year-on-year growth of approximately 8%, while the installed capacity in Europe and the United States will be approximately 78GW and 43 GW, respectively, with a year-on-year growth of approximately 26% and 39%, respectively. The installed capacity in the Middle East region is expected to be approximately 12GW, driven by the promising market outlook as a result of the urgent need for energy transformation.

Through technology introduction, collaborative research and development and independent innovation, the Group has developed as a provider of semiconductor-grade electronic chemical production processes, core equipment, and total solutions. With a strategic global capacity distribution, the Group has successfully completed the delivery of relevant products and services across various countries.

CONSTRUCTION OF PRODUCTION CAPACITY

Malaysia manufacturing base

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

Malaysia Manufacturing Base (Design Rendering)

Changshu manufacturing base

The first phase of the Group's high-end equipment manufacturing base project of Morimatsu LifeSciences located in Changshu, Suzhou City, Jiangsu Province has been fully completed for delivery and ready to operation in the fourth quarter of 2023. With an area of approximately 130,000 square meters, it is mainly used to provide high-end equipment and complete sets of equipment of digital intelligence for the biopharmaceutical field, wet electronic chemical field, family care industry and other precision industries with high requirements on cleanliness. Considering the current market supply and demand as well as the Group's orders on-hand, it is expected that the production capacity of Changshu manufacturing base will be fully utilized.

Changshu manufacturing base

TALENT STRATEGY

The hard and soft capabilities of the Group are fundamental to its development. Hard capabilities refer to the manufacturing bases and production facilities, while soft power is represented by the expertise of its management and technical talents. These elements, together, form the vital foundation for the sustainable operations of the Group. In terms of talent cultivation, the Group has a comprehensive career development system, training programs and employee care policies. For details, please refer to the "Environmental, Social and Governance Report" section of this annual report.

During the Reporting Period, the Group employed approximately 4,500 staff in total, of which over 650 were research and development personnel.

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

The Group has set up a dedicated training department. Every year, it invites professional instructors to deliver lectures to employees in accordance with the development needs. This approach, which merges theatrical knowledge with practical application and promotes the sharing of experiences, lays the foundation for both domestic and international business development and the cultivation of global talent of the Group.

In addition to internal and external training efforts, the Group partners with numerous leading domestic universities on education reform pilot projects, aiming at nurturing versatile professionals in line with the demand of the society while aligning job requirements with practical engineering capabilities. By exploring mutually beneficial models with focus on technological innovation, the Group aims to advance the process of talent cultivation further.

The Group continued to provide support for internal entrepreneurial teams, and provided platform-based incubation services on the basis of sharing resources and markets to promote the development of new products and technologies, primarily covering such fields as new materials, biopharmaceuticals, advanced industrial equipment and industrial automation technology. Among them, the entrepreneurial team on the development of disposable bio-reaction technology and related products had acquired the status of a legal person in the form of a subsidiary of the Company, and successfully realized operating revenues and enhanced the personal values of the staff.

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

REVIEW OF FINANCIAL DATA

Revenue

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

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

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

Raw materials of power battery include mining and metallurgy industry.

Cost of sales

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

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

Gross profit and gross profit margin

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

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

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

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

Electronic chemical

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

Chemical

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

Family care

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

Raw materials of power battery

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

Oil and gas refinery

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

Pharmaceutical and biopharmaceutical

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

Other income/(loss)

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

Selling and marketing expenses

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

General and administrative expenses

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

Research and development expenses

The Group's research and development expenses increased by approximately 32.3% from approximately RMB316,084,000 for the year ended 31 December 2022 to approximately RMB418,149,000 for the year ended 31 December 2023, which was mainly due to the increase in the Group's investment of manpower and resources in new fields, new products and new processes to enhance its core competitiveness. The research and development expenses accounted for approximately 5.7% of the Group's total revenue for the year ended 31 December 2023 (same period in 2022: 4.9%).

Finance costs

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

Income tax expenses

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

Net profit and net profit margin

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

Non-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 Group should not view the following adjusted results on a stand-alone basis or as a substitute for results under HKFRSs, and such non-HKFRS financial measures may not be comparable to similarly titled measures presented by other companies.

EBITDA

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

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

Property, plant and equipment

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

Trade and other receivables

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

Inventories

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

Contract liabilities

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

Borrowings and gearing ratio

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

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

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

Liquidity and capital resources

As at 31 December 2023, the balance of cash and cash equivalents of the Group was approximately RMB2,168,682,000, representing an increase of approximately RMB798,323,000 from approximately RMB1,370,359,000 as at 31 December 2022. Under the premise of ensuring liquidity, the Group purchased short-term wealth management products issued by banks with idle funds, the outstanding amount of which was approximately RMB59,149,000 as at 31 December 2023, representing a decrease of approximately RMB194,599,000 from approximately RMB253,748,000 as at 31 December 2022.

The liquidity of the Group mainly includes cash generated from operating activities, net proceeds from the placement and issue of equity securities/Global Offering and bank borrowings. The liquidity requirements mainly include general working capital and capital expenditures.

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

As at 31 December 2023, the Group had total bank facilities of RMB2,455,000,000, USD165,000,000, SEK300,000,000, HK$93,000,000 and JPY17,100,000,000 (aggregately equivalent to RMB4,779,864,000), of which, used bank facilities were approximately RMB861,921,000, USD91,507,000, EUR4,210,000, HK$93,000,000 and JPY82,000,000 (aggregately equivalent to approximately RMB1,631,518,000), and unused bank facilities were equivalent to RMB3,148,346,000.

Charges on Assets

As at 31 December 2023, the Group did not have any assets or rights pledged.

Contingent liabilities and guarantees

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

Issue of equity securities

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

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

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

	Net Proceeds from the Subscription actually distributed HK$'000	Net Proceeds from the Subscription actually distributed RMB'000	Distribution of Net Proceeds from the Subscription as a percentage of total Net Proceeds from the Subscription	Amounts of the Net Proceeds from the Subscription utilized during the Reporting Period RMB'000	Unused Net Proceeds from the Subscription as at 31 December 2023 RMB'000	Estimated timing for utilizing the remaining Net Proceeds from the Subscription
Construction of Changshu Manufacturing Base	327,335	283,603	50.0%	283,603	—	
Construction of Malaysia Manufacturing Base*	261,868	226,883	40.0%	51,227	175,656	By the end of 2024
Expansion of European Market	32,733	28,360	5.0%	—	28,360	By the end of 2024
General working capital	32,733	28,360	5.0%	28,360	—	
Subtotal	**654,669**	**567,206**	**100.0%**	**363,190**	**204,016**	

* The Malaysia Manufacturing Base is the Group's overseas outpost which actively relies on the resources of Southeast Asia to cope with global trade. In order to further expand the production capacity of the Malaysia Manufacturing Base, the Group has commenced the construction of the second phase in the second half of 2023 to upgrade and expand the manufacturing base. The Malaysia Manufacturing Base will serve as a useful supplement to the Group's overseas production capacity.

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

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

Significant investments, acquisitions and disposals

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

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

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

During the Reporting Period, pursuant to an investment agreement, Morimatsu Pharmaceutical Equipment, a subsidiary of the Company, completed several capital contributions of RMB40 million to its associate, namely, Jiangsu Qunchuang Wisdom New Material Co., Ltd (江蘇群創智慧新材料有限公司).

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

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

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

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

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

Save as disclosed above, the Group did not hold any other significant investments, nor did it have any material acquisitions or disposals of subsidiaries during the Reporting Period, and the Group did not have definite future plans for material investments and capital assets as at 31 December 2023.

Important events after the Reporting Period

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

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

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

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

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

Directors' Report

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

PRINCIPAL BUSINESS

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

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

BUSINESS REVIEW

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

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Matsuhisa Terumoto *(Chairman)*

Independent Non-executive Directors

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

PERMITTED INDEMNITY PROVISION

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

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

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

CHANGES IN INFORMATION OF DIRECTORS

Since 14 July 2023, Mr. Sheng Ye, an executive Director, served as a director and the chief executive officer of Pharmadule Singapore.

Since 14 July 2023, Mr. Tang Wei Hua, an executive Director, served as a director of Pharmadule Singapore. Since 22 December 2023, he served as a director of Lifesciences Singapore. He obtained the qualification of professorate senior engineer specializing in digital technology research and development from Shanghai Municipal Human Resources and Social Security Bureau on 15 August 2023. He served as a member and the vice chairman of the 8th council of the Shanghai Society of Biotechnology from October 2023 to October 2027.

Since 17 October 2023, Mr. Hirazawa Jungo, an executive Director, has served as a director of Morimatsu Singapore. Since 27 November 2023, he has served as a director of Morimatsu T&S.

Since 21 December 2023, Mr. Kawashima Hirotaka, an executive Director, has served as a director of Morimatsu T&S.

Since 16 January 2024, Mr. Nishimatsu Koei, an executive Director, has served as the chairman of the board of Morimatsu Pharmaceutical Equipment.

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 2023, none of the Directors or their respective associates (as defined in the Listing Rules) had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

DEED OF NON-COMPETITION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group had a total of approximately 4,500 employees, among which over 650 are research and development personnel, accounting for more than 14% of the total number of employees. The Group has a comprehensive remuneration and welfare system and an effective performance appraisal system as required by laws, and determines the remuneration of employees based on their positions and performance. The Group's remuneration policies seek to provide fair market remuneration in form and value to attract, retain and motivate high quality staff. Remuneration packages are set at comparable and competitive levels with other companies in the industry and the market to compete for a similar talent pool.

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

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

RELATED PARTY TRANSACTIONS

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

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

CONTINUING CONNECTED TRANSACTIONS

Partially-exempt Continuing Connected Transactions

Lease of Shanghai manufacturing base from Morimatsu Chemical Equipment

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

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

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

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

The annual cap of such continuing connected transactions for 2023 was RMB59,800,000. The actual rent (tax inclusive) for 2023 was approximately RMB59,414,000. 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 2023	1 year	828.32	119,179	1,430,144
Morimatsu Heavy Industry	1 January 2023	1 year	31,487.35	2,706,445	32,477,336
Office buildings			6,133.51		
Production workshops			25,353.84		
Morimatsu Pharmaceutical	1 January 2023	1 year	24,453.52	2,125,516	25,506,186
Office buildings			5,110.15		
Production workshops			19,325.37		
Subtotal			56,751.19	4,951,139	59,413,666

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

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

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

(2) on normal commercial terms or better; and

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

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

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

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

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

RISK MANAGEMENT

The Group recognises that risk management is one of the important elements for maintaining an efficient, safe and stable business operation. The Group's management is responsible for assisting the Board in evaluating the Group's daily operations and activities, which are exposed to material risks (including operational risks, financial risks, market 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.

Risks related to global politics and international trade

The Group is dedicated to expanding its global business, which is subject to the influence of changes in global and regional macroeconomic conditions, geopolitical landscapes, social contexts, and regulatory environments. Political conditions in various countries exhibit ongoing uncertainties, and the international trade system is subject to fluctuations. The Group's operating costs and potential liabilities may be affected by policy decisions and strict regulations across different regions. The Group will continue to monitor the external environment closely, tracking and overseeing changes in the political landscape and adjusting its strategies promptly to respond to dynamic changes at regional and national levels.

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 primarily consists of the fair value interest rate risk associated with bank loans with fixed interest rates and lease liabilities, as well as the cash flow interest rate risk related to bank loans with floating interest rates. The Group closely monitors the potential impact of interest rate fluctuations, regularly reviews and supervises the portfolio of instruments with fixed and floating interest rates, and makes timely adjustments based on the latest market conditions to mitigate interest rate risk.

Foreign exchange risk

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

Credit risk

The Group has established comprehensive credit control policies. It assesses the credit quality of customers and sets corresponding credit terms based on their financial condition, credit history, and other factors, such as current market conditions. The Group performs periodic credit checks on customers, demands for payment for overdue trade receivables, and regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate provision for expected credit losses is made.

As the Group's bank deposits and wealth management products are primarily held with financial institutions of good reputation and high credit ratings, the management considers the associated credit risk to be low.

Trade risks in sanctioned countries/regions

Some of the Group's products were mainly sold and/or delivered on FOB or shipper basis to certain countries/regions subject to International Sanctions, namely, the Hellenic Republic, the Republic of Turkey, Egypt, Iraq and Russia. During the Reporting Period, revenue from products sold and/or delivered to countries/regions subject to International Sanctions amounted to approximately RMB1,082 million (2022: approximately RMB428.5 million), representing approximately 14.70% of the Group's total revenue (2022: approximately 6.61%).

The Group did not use the net proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange and would not enter into any transaction, whether directly or indirectly, to finance or facilitate any activities or business with, or for the benefit of, any sanctioned countries/regions or any other governments, individuals or entities sanctioned by USA, EU, Australia or the United Nations or any activities or business that violate the sanctions imposed by the United States, the European Union, Australia or the United Nations. The Group had not been notified of any International Sanctions that would be imposed on the Group for sales and/or deliveries to the countries/regions subject to International Sanctions for the year ended 31 December 2023, and the Group is not aware of any International Sanctions that would arise if the Group were to sell and/or deliver products to countries/regions subject to International Sanctions. Although the Directors do not expect any material increase in the sales or delivery of the Group's products to these countries/regions, the Group expects to continue to sell and/or deliver its products to those countries/regions subject to International Sanctions.

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

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

As at 31 December 2023, the interests and short positions of the directors, supervisors, chief executives of the Company or their associates in the Shares, the underlying Shares or bonds of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange in accordance with Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed or to have under such provisions of the SFO), or the interests or short positions to be entered in the register required to be kept under Section 352 of the SFO, or to be notified separately to the Company and the Stock Exchange in accordance with the Model Code contained in the Listing Rules were as follows:

(1) Long position in shares of the Company

Name of directors	Capacity/Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage (%) of issued share capital as at 31 December 2023[2]
Matsuhisa Terumoto	Beneficial owner[1]	16,810,000	1.41
Nishimatsu Koei	Beneficial owner[1]	626,000	0.05
	Beneficial owner	3,899,000	0.33
Kawashima Hirotaka	Beneficial owner[1]	1,584,000	0.13
Hirazawa Jungo	Beneficial owner[1]	1,360,000	0.11
Tang Weihua	Beneficial owner[1]	1,000	0.00
	Beneficial owner	2,434,119	0.20
Sheng Ye	Beneficial owner[1]	791,309	0.07
	Beneficial owner	1,617,376	0.14

Notes:

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

2 The calculation is based on the total number of 1,190,091,800 Shares in issue as at 31 December 2023.

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

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

Notes:

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

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

Save as disclosed above, as at 31 December 2023, 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 2023, 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/Nature of interests	Number of Shareholdings	Approximate percentage of issued shares as at 31 December 2023[2]
Morimatsu Holdings	Beneficial owner	750,000,000 (L)[1]	63.02
Morimatsu Group[3]	Interest in a controlled corporation	750,000,000 (L)	63.02
Mr. Matsuhisa Terumoto[4]	Interest in a controlled corporation	750,000,000 (L)	63.02
	Beneficial owner	16,810,000 (L)	1.41

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 1,190,091,800 issued Shares of the Company as at 31 December 2023.

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

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

Save as disclosed above, to the knowledge of the Directors and chief executives, as at 31 December 2023, there is no other person (excluding Directors, supervisors and chief executives of the Company or their respective associates) has interests or short positions as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO in the Shares and underlying Shares.

PRE-IPO SHARE OPTION SCHEME

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

(1) Purpose

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

(2) Grantees

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

(3) Maximum number of Shares to be allotted

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 132,380,000 Shares, representing approximately 11.12% of the issued Shares as of the date of this annual report.

(4) Subscription price

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

(5) Exercise period

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

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

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

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

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

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

(6) Term

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

(7) Right to cancel options

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

Exercise of share options

The Company adopted a Pre-IPO Share Option Scheme on 1 July 2020. Details of the Pre-IPO Share Option Scheme are set out in Appendix V to the Prospectus and note 27 to the consolidated financial statements. As at 31 December 2023, all share options had been granted under the Pre-IPO Share Option Scheme, and no share options had been cancelled. During the Reporting Period, details of the changes in the share options granted and the share options outstanding under the Pre-IPO Share Option Scheme are as follows:

Grantees	Number of underlying Shares	Number of Shares outstanding as at 1 January 2023	Number of Shares exercised during the Reporting Period	Exercise price (HKD)	Number of Shares lapsed during the Reporting Period	Number of Shares outstanding as at 31 December 2023
Directors						
Matsuhisa Terumoto	16,810,000	16,810,000	—	—	—	16,810,000
Nishimatsu Koei	11,315,000	10,815,000	2,600,000	0.0001	—	8,215,000
Kawashima Hirotaka	3,960,000	3,960,000	—	—	—	3,960,000
Hirazawa Jungo	3,400,000	3,400,000	—	—	—	3,400,000
Tang Weihua	7,920,000	6,336,260	1,583,260	0.0001	—	4,753,000
Sheng Ye	7,920,000	6,336,000	292,691	0.0001	—	6,043,309
Subtotal	51,325,000	47,657,260	4,475,951	—	—	43,181,309
Associates of Directors of the Company or its subsidiaries						
Matsuhisa Hideo	4,200,000	4,200,000	1,000	0.0001	—	4,199,000
Other 20 employees	76,855,000	62,280,052	3,479,468	0.0001	—	58,800,584
Total	132,380,000	114,137,312	7,956,419	—	—	106,180,893

During the Reporting Period, the number of Shares issued by the Company under the Pre-IPO Share Option Scheme was 26,476,000 Shares, representing approximately 2.22% of the issued share capital of the Company as at 31 December 2023. For share options exercised during the Reporting Period, the weighted average closing price on the date immediately prior to the exercise was HK$6.01.

No further options has been granted under the Pre-IPO Share Option Scheme since the Listing Date. Accordingly, the number of shares that may be issued in respect of options granted under the Pre-IPO Share Option Scheme during the Reporting Period divided by the weighted average number of Shares in issue is nil.

As at the date of this annual report, the remaining life of the Pre-IPO Share Option Scheme is approximately seven (7) years.

POST-IPO SHARE OPTION SCHEME

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

(1) Purpose

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

(2) Eligibility of Participants

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

(3) Maximum number of Shares

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

2) Subject to paragraphs (3) 1), 4) and 5), at the time of adoption by the Company of the Post-IPO Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Schemes**") of the Company must not in aggregate exceed 10% of the total number of the Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**"). As of the date of this annual report, the total number of shares available for issue under the Post-IPO Share Option Scheme is 100,000,000 Shares, representing 8.40% of the issued Shares as of the date of this annual report.

3) For the purposes of calculating the Scheme Mandate Limit under paragraph (3) 2), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.

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

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

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

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

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

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

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

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

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

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

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

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

(5) Price of Shares

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

(6) Granting options to related persons

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

(7) Restrictions on the time of grant of options

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

(8) Time of exercise of option

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

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

(9) Performance target

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

During the period from the Listing Date to 31 December 2023, no option has been granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme and nor any options were outstanding under the Post-IPO Share Option Scheme. Accordingly, the number of shares that may be issued in respect of options granted under the Post-IPO Share Option Scheme during the Reporting Period divided by the weighted average number of Shares in issue is nil.

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

As at the date of this annual report, the remaining life of the Post-IPO Share Option Scheme is approximately seven (7) years.

RSU SCHEME

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

(1) Purposes

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

(2) Participants

Persons eligible to receive RSUs under the RSU Scheme are existing employees of the Company or any member of the Group. An employee who has been granted an award may, if otherwise eligible, be granted additional awards.

(3) Administration of the Scheme

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

(4) Duration and termination

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

(5) Scheme Limit

The Shares to be issued pursuant to the RSU Scheme shall be authorized, but unissued, or reacquired ordinary Shares. The maximum aggregate number of Shares which may be issued pursuant to the RSU Scheme is 30,000,000, representing approximately 2.52% of the issued Shares as of the date of this annual report. In any event, (1) the maximum aggregate number of Shares which may be issued pursuant to the RSU Scheme shall not exceed 10% of the issued shares of the Company (as changed from time to time); and (2) the maximum number of Shares which may be awarded to an individual Employee under the RSU Scheme shall not exceed 1% of the issued shares of the Company (as changed from time to time).

(6) Grant of the RSUs

As of 31 December 2023, a total of 29,459,700 RSUs (equivalent to 29,459,700 underlying Shares) have been granted to 149 Grantees at nil consideration under the RSU Scheme, representing approximately 2.48% of the issued shares of the Company as at 31 December 2023. The number of RSUs available for grant under the RSU Scheme mandate as of the beginning and end of the Reporting Period is 540,300.

(7) Purchase price

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

(8) Vesting schedule

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

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

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

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

(9) Performance targets

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

1) Group level performance:

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

2) Individual level performance:

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

Change in the RSUs

The Company adopted the RSU Scheme on 15 December 2021 and granted RSUs under the RSU Scheme on 5 January 2022. The specific details of the RSU Scheme are set out in the Company's announcements dated 15 December 2021 and 5 January 2022 and note 27 to the consolidated financial statements in this annual report. During the Reporting Period, 43,200 restricted share units were canceled. The purchase price of the canceled restricted share units was HK$4.17. During the Reporting Period, details of the changes in the RSUs granted and the RSUs outstanding under the RSU Scheme are as follows:

Grantees	Number of restricted share units granted on 5 January 2022	Number of restricted share units outstanding as at 1 January 2023	Number of restricted share units vested during the Reporting Period	Purchase Price (HKD)	Number of restricted share units lapsed during the Reporting Period	Number of restricted share units outstanding as at 31 December 2023
149 employees	29,459,700	28,220,400	9,406,800	4.17	275,400	18,538,200

The closing price in relation to the RSUs before the date of grant was HK$8.51. For the restricted share units vested during the Reporting Period, the weighted average closing price immediately before the dates of vesting was HK$9.47. As of 31 December 2023, the number of Shares issued by the Company under the RSU Scheme was 19,639,800 Shares, representing approximately 1.65% of the issued shares of the Company as at 31 December 2023.

No further restricted share units have been granted under the RSU Scheme during the Reporting Period. Accordingly, the number of Shares that may be issued in respect of restricted share units granted under the RSU Scheme during the Reporting Period divided by the weighted average number of Shares in issue is nil.

As at the date of this annual report, the remaining life of the RSU Scheme is approximately three (3) years.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's sales to its five largest customers accounted for approximately 34.0% of the Group's total revenue and sales to the Group's largest customer accounted for approximately 10.9% of the Group's total revenue.

During the Reporting Period, the five largest suppliers of the Group accounted for approximately 11.9% of the Group's total purchases and the largest supplier of the Group accounted for approximately 3.7% of the Group's total purchases.

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

MANAGEMENT CONTRACTS

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

RESULTS AND DIVIDENDS

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

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

SHARE CAPITAL

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

RESERVE

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

Details of the Company's reserves available for distribution to the Shareholders as at 31 December 2023 are set out in note 28 to the consolidated financial statements of this annual report.

DONATION

During the Reporting Period, the Group made charitable and other donations amounting to approximately RMB1,779,000.

PROPERTY, PLANT AND EQUIPMENT

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

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

Purposes	Allocation of actual Net Proceeds raised HKD'000	Allocation of actual Net Proceeds raised RMB'000	Percentage of total amount of the Net Proceeds allocated	Unutilised Net Proceeds as at 31 December 2022 RMB'000	Utilised Net Proceeds during the Reporting Period RMB'000	Unutilised Net Proceeds as at 31 December 2023 RMB'000	Expected timeline for the usage of the remaining Net Proceeds
Improve production capacity and modular manufacturing capability	412,014	342,957	60.0%	—	—	—	
Improve and expand service and digital service capabilities	90,679	75,481	13.2%	36,270	36,270	—	
Continue to implement internationalization strategy	82,436	68,619	12.0%	43,181	21,020	22,161	By the end of 2024
Investment in underlying research and development from 2021 to 2023	32,974	27,448	4.8%	—	—	—	
General working capital	68,587	57,091	10.0%	—	—	—	
Subtotal	686,690	571,596	100.0%	79,451	57,290	22,161	

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EQUITY-LINKED AGREEMENTS

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

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Tuesday, 18 June 2024. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 13 June 2024 to Tuesday, 18 June 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 12 June 2024.

For determining the Shareholder's entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 5 July 2024 to Monday, 8 July 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to the proposed final dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 July 2024.

CORPORATE GOVERNANCE

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

SUFFICIENCY OF PUBLIC FLOAT

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

TAX RELIEF AND EXEMPTION

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

BANK LOANS AND OTHER BORROWINGS

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

MATERIAL LITIGATIONS AND ARBITRATION MATTERS

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

PRE-EMPTIVE RIGHTS

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

AUDITOR

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

On behalf of the Board

Nishimatsu Koei
Chief executive officer and executive Director

Hong Kong, 28 March 2024

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the governance principles and code provisions of the CG Code as set out in Appendix C1 to the Listing Rules as the basis of the Company's corporate governance practices.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

THE BOARD

The Board of the Company currently comprises the following Directors:

Executive Directors

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

Non-Executive Directors

Mr. Matsuhisa Terumoto *(Chairman)*

Independent Non-executive Directors

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

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

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

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

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

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

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

During the Reporting Period, the Board held four regular meetings in total, with active participation of all Directors either in person or through electronic means of communication. Code provision C.2.7 of the CG Code stipulates that the chairman should hold meetings with the independent non-executive directors at least once a year without the presence of other directors. The Company has made arrangements to comply with this code provision and held a meeting during the Reporting Period. On 28 June 2023, the Company held the AGM. The attendance record of the Directors is as follows:

			Attendance		
Name of Director	**Board Meetings**	**Meetings of Audit Committee**	**Meetings Of Remuneration Committee**	**Meetings Of Nomination Committee**	**AGM**
Mr. Nishimatsu Koei	4/4	N/A	N/A	N/A	1/1
Mr. Hirazawa Jungo	4/4	N/A	N/A	N/A	1/1
Mr. Tang Weihua	4/4	N/A	N/A	N/A	1/1
Mr. Sheng Ye	4/4	N/A	N/A	N/A	1/1
Mr. Kawashima Hirotaka	4/4	N/A	N/A	N/A	1/1
Mr. Matsuhisa Terumoto	4/4	4/4	1/1	1/1	1/1
Ms. Chan Yuen Sau Kelly	3/4	4/4	1/1	N/A	1/1
Mr. Kanno Shinichiro	4/4	4/4	N/A	1/1	1/1
Mr. Yu Jianguo	4/4	N/A	1/1	1/1	1/1

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

RESPONSIBILITIES, ACCOUNTABILITY AND CONTRIBUTIONS OF THE BOARD AND THE MANAGEMENT

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

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

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

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

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

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

DIRECTORS' CONTINUOUS DEVELOPMENT

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

BOARD INDEPENDENCE POLICY

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

The Structure, Size and Composition of the Board

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

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

Independence Criteria for Assessing Independent Non-Executive Directors

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

1) Equity relationship:

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

2) Professional service relationship:

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

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

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

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

3) Business relationship:

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

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

4) Employment and remuneration relationships:

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

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

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

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

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

Requirements for Serving as an Independent Non-executive Directors

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

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

2） has the independence required by this policy;

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

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

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

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

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

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

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

Requirements for the Term of Independent Non-Executive Directors

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

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

The retiring Directors shall be eligible for re-election.

COMMITTEES UNDER THE BOARD

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

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

AUDIT COMMITTEE

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

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

The Audit Committee held four meetings during the Reporting Period to review the 2022 annual results announcement and report and 2023 interim results announcement and report of the Company, and to review significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works.

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

Name of members of the Audit Committee	Attendance
Mr. Matsuhisa Terumoto	4/4
Ms. Chan Yuen Sau Kelly	4/4
Mr. Kanno Shinichiro	4/4

REMUNERATION COMMITTEE

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

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

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Policy for Executive Directors and Senior Management

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

The principles of the remuneration policy are as follows:

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

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

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

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

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

Remuneration Policy for Non-Executive Directors

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

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

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

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

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

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

Remuneration Level of Directors and Senior Management

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

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

Senior management	Remuneration band (RMB)	Number of people
Nishimatsu Koei	9,000,000 to 9,500,000	1
Hirazawa Jungo	2,500,000 to 3,000,000	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.

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

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

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

NOMINATION POLICY

The Board has adopted a nomination policy.

Purpose

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

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

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

Selection Criteria

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

1) character and integrity;

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

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

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

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

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

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

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

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

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

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

Nomination Procedures

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

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

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

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

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

Re-election of Directors at General Meetings

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

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

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

Succession Planning

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

BOARD DIVERSITY POLICY

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

Purpose

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

Vision

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

Policy Statement

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

Measurable Objectives

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

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

Monitoring and Reporting

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

The Board comprises nine members, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of knowledge and experiences, including business management, quality control, administration and management, manufacture and research and development of pressure vessels and finance, auditing and accounting experiences. The Board members also obtained degrees in various majors including business administration, chemical and mechanical engineering, metallurgical engineering, water supply and drainage engineering, electronics engineering and business and commerce. Furthermore, the ages of the Directors range from 40 years old to 80 years old.

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

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

The Company is also committed to adopting similar approach to promote diversity of all staff of the Group (including but not limited to the senior management) to enhance the effectiveness of our corporate governance. The Group is mainly engaged in design, manufacture, installation and operation and maintenance. Due to the nature of the industry, most of the Group's employees are male. The Company aims to maintain an appropriate balance of diverse perspectives that are relevant to the growth of the Group's business and also strives to ensure that recruitment and selection practices at all levels (from the Board down) are properly structured so that a diverse range of candidates is considered. As at 31 December 2023, the ratio of male and female employees of the Group is about 4.5: 1, details of related data are set out in the section headed "Environmental, Social and Governance Report". Due to the nature of the industry and the relevant labour supply market, the Company tends to employ more male employees than female employees. The Company is committed to maintaining a balance of male and female employees, and has implemented a fair employment policy. The Company will regularly assess its employment policy to ensure merit-based and diverse recruitment of employees in order to narrow the gender gap in the workforce.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

AUDITORS' REMUNERATION

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

Service Category	**Fees paid/ payable RMB'000**
Audit services	4,070
Non-audit services	0
Total	4,070

JOINT COMPANY SECRETARIES

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

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

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

INVESTOR RELATIONS AND SHAREHOLDERS' ENGAGEMENT

During the Reporting Period, a special resolution was passed on 28 June 2023 for the amendment of the Company's Articles of Association. The latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Shareholder Communication Policy

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

(1) Purpose

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

(2) General policy

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

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

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

(3) Communication strategy

1) Shareholder inquiries

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

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

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

2) Corporate communication

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

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

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

3) Company website

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

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

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

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

4) General meetings

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

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

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

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

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

(4) Shareholder privacy

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

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

Make Enquiries to the Board

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

Contact Information

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

Address:	29/F, One Exchange Square 8 Connaught Place, Central, Hong Kong (For the attention of the Board of Directors/Joint Company Secretaries)
Email:	contact@morimatsu-online.com ircontact@morimatsu-online.com
Telephone:	+852 2157 0050

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

Important Event Log of Shareholders for FY2024

The Company is committed to maintaining sincere and constructive communication with its Shareholders/investors, and providing the Shareholders/investors with the information they need to make informed investment decisions. In order to further maintain and strengthen the effectiveness of the Company's communication with the Shareholders/investors, the Company's important event log for shareholders in the financial year of 2024 is as follows:

First half of 2024

- 2023 annual results announcement
  Results release (also available on live broadcasting)
- Roadshow after results announcement
- Annual General Meeting

Second half of 2024

- 2024 interim results announcement
  Results release (also available on live broadcasting)
- Roadshow after results announcement

Shareholders' Rights

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

Convening Extraordinary General Meeting and Putting Forward Proposals

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

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

Dividend Policy

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

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

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

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

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

(4) future prospects of the Group;

(5) statutory and regulatory restrictions;

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

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

(8) Shareholders' interests; and

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

The Board will review its financial position from time to time and will make dividend distributions as it considers appropriate in the interests of the Company and its Shareholders.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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. Environmental, social and governance ("**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 Board of the Company is responsible for formulating ESG strategies of the Group, assessing and determining relevant risks, and ensuring that a suitable and effective risk management objective and internal control system is in place. By assessing and evaluating ESG-related risks and performance reporting, the Group sets overall strategic objectives, monitors management effectiveness, and ensures reliable business operations and compliance with relevant legal and regulatory requirements. On 14 September 2020, the Group appointed Mr. Kawashima Hirotaka, an executive Director and a member of the Board, to plan, organize and oversee the ESG process, and established an ESG working group composed of the management and the heads of production, quality control, sales, procurement, health, safety and environment ("**HSE**") and human resources departments to ensure the specific execution and implementation of the Group's ESG work and strategies. He is also responsible to report to the Board regularly and follow the Board's instruction and suggestions.

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

Scope of Reporting

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

Reporting Period

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

Reporting Framework

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "**Guide**") as set out in Appendix C2 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, the Group actively communicated with stakeholders during the Reporting Period through various channels to exchange views and ideas, and to discuss and review ESG objectives with stakeholders, with the aim of building key business strategies for the Group to drive future growth and address future challenges.

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

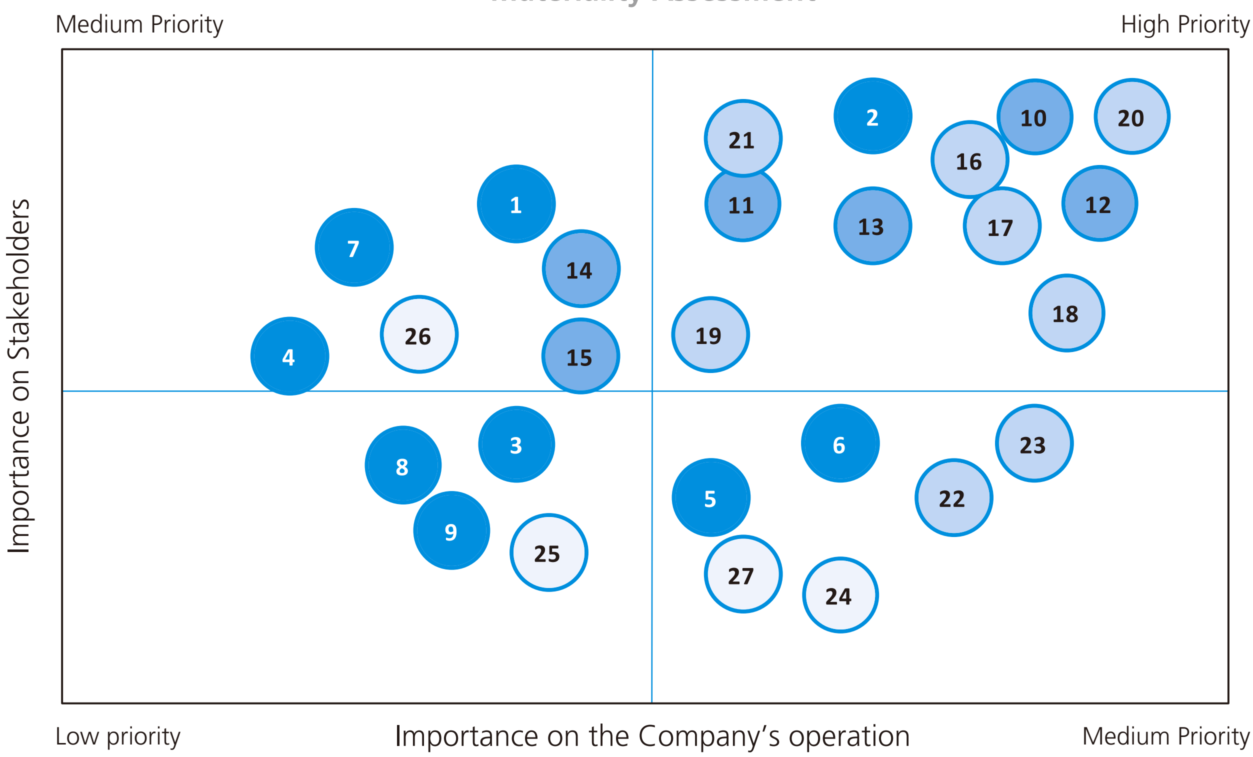
Stakeholders	Goals and areas of concern	Communication channels and methods	Responses
Government and regulatory authorities	• Compliance with various laws and regulations • Promote employment • Pay taxes according to law • Climate change and energy management	• Dialogue with the local government • Timely and accurate submission of information • Transparent information disclosure	• Enforce national policies and comply with national laws and regulations • Accept supervision and inspection • Provide more job opportunities • Strengthen compliance management and operation for enterprises • Timely filing of tax returns
Industry associations	• Facilitate industry development	• Industry exchange sessions	• Provide suggestions on industry regulations and promote sustainable industry development • Promote fair competition in the industry
Investors and shareholders	• Financial results • Development strategies • Exploration of new business • Sustainable corporate development • Technology and innovation	• The Company's website, WeChat official account, Futu Institution Account and relevant financial platforms • Annual reports and interim reports • Board meetings, general meetings, investor meetings • Direct communication with Shareholders	• Convene regular general meetings • Convene regular Board meetings • Convene investors meetings • Make timely disclosure of statutory matters and business updates • Deepen product and technology innovation and continuously expand new business

Stakeholders	Goals and areas of concern	Communication channels and methods	Responses
Employees	• Protection of rights and interests • Remunerations and benefits • Safety and health • Career development • Corporate culture	• General manager seminar • Industrial organization • Employee training • Employee activities • Feedback and OA Forum • Corporate publications • Performance evaluation of employees	• Protect the rights and interests of employees and enhance employee benefits • Improve the working environment of employees • Enhance employee health and safety related training and facility investment • Provide employees with better training related to career development and help them to improve their management and technical skills • Provide employees with a wide range of career development opportunities • Adhere to the people-oriented business philosophy and provide more employee care
Customers	• Provide products and services that meet the needs and create greater value for customers • Intellectual property protection • Information safety security • Bear corporate social responsibility	• The Company's website and WeChat official account • On-site visits and inspection • Customer satisfaction survey • Complaint hotline • Customer audit	• Continuously improve the quality of products and services • Timely feedback and handle customer complaints • Protect customer data and information • Establish a sound information security internet system • Actively cooperate with customer to perform enterprise social responsibility audit
Suppliers and business partners	• Comply with business ethics and national laws and regulations • Openness and fairness • Commitment • Work with suppliers to promote sustainable development of the supply chain and achieve win-win cooperation	• Selection review • Contract negotiation • Regular review • Daily business communication	• Build a communication platform for suppliers • Improve supplier selection mechanism • Establish an open and transparent tendering mechanism • Provide equal opportunity for suppliers to compete • Improve supplier evaluation
Community	• Actively participate in community construction • Actively devote to public welfare undertakings	• The Company's website and WeChat official account • Community activities	• Commences employee volunteer activities • Provides students assistance donations • Provides internship opportunities for university students • Charity donations

MATERIALITY ASSESSMENT

Through stakeholder engagement activities and reference to expert opinions and peer experience, etc, the Board has identified the following most significant ESG issues in terms of importance on stakeholders and importance on the Company's operation according to the principle of dual importance, and established priorities for resource allocation to address these issues. The assessment helps to ensure that the Group's business objectives and development direction are in line with the expectations and requirements of the stakeholders.

Materiality Assessment



Environment

1 Waste management
2 Risks and opportunities of climate change
3 Dust emission
4 Noise emission
5 GHG emissions
6 Energy management
7 Water resource management
8 Waste water discharge
9 Waste gas emission

Employee

10 Employee training and development opportunity
11 Employee's remuneration and benefits
12 Occupational health and safety
13 Employee rights protection
14 Talent recruitment and retain
15 Employee communication and complain mechanism

Operation

16 Product safety and quality
17 Customer service and satisfaction
18 Intellectual property protection
19 Research, development, and innovation
20 Information safety
21 Establishment of an integrity culture
22 Sustainable supply chain
23 Compliance operation

Society

24 Provide employment and development opportunities
25 Cross industry cooperation and development
26 Social charity activity
27 Social activity participation and contribution

STAKEHOLDERS' FEEDBACK

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

ENVIRONMENTAL PERFORMANCE

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

Emission Policies and Compliance

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

Waste water discharge

In accordance with the relevant laws and regulations, the Group has formulated "Water Pollution Control Management Regulations" (《水污染控制管理規定》) and applied for "Pollution Discharge Permit" (《排污許可證》). As for domestic sewage, the Group recycles the effluent generated from the pure water preparation process for toilet flushing. After centralized collection, it is discharged into the municipal sewage network along with other domestic wastewater, ensuring no adverse impact on the surrounding aquatic environment. 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. 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 has established an emergency water pond at the Changshu manufacturing base in 2023. In the event of water quality failing to meet the standards, all production wastewater within the manufacturing base will be directed to this emergency pond to prevent leakage. The maximum storage capacity of this emergency pond is approximately 1,560 tonnes. Moreover, 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 1,008,710.95 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. The Group's emission sources related to production activities are mainly natural gas combustion in heat treatment furnaces, exothermic welding and pulsed welding 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. The Group has installed waste gas treatment facilities to uniformly collect and treat all generated waste, ensuring emissions meet required standards before discharge. For the specific cases of exothermic welding and pulsed welding emissions, the Group employs an enclosed collection system within workshops, utilizing negative pressure ventilation. These emissions are then processed through an activated carbon adsorption unit before being discharged into the atmosphere through exhaust stacks. Furthermore, the Group annually organizes qualified third-party entities to conduct inspections of stationary emission sources within our facilities, guaranteeing compliance with emission standards.

The Group's office and non-manufacture related emission mainly include 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. In addition, the Group promotes the use of new energy vehicles among employees and customers by installing charging stations and fast-charging devices.

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 2.17 tonnes, the actual emission of nitrogen oxides was approximately 3.22 tonnes, the actual emission of sulphur dioxide was approximately 1.06 tonnes, the actual emission of benzene was approximately 0.02 tonnes, the actual emission of toluene was approximately 0.24 tonnes and the actual emission of xylene was approximately 0.36 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 at our production premises in an effort to reduce dust pollution and safeguard employees' health.

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

Noise

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

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

Waste

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

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

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

o Hazardous waste is collected by the designated responsible department, stored in special containers and placed in the dangerous goods storage areas. The waste storage facility is equipped with anti-permeation epoxy flooring and features diversion channels and collection tanks to prevent leaks from spreading.

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 Designate personnel to 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 implement stringent registration management for the disposal of hazardous waste.

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

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

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

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

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

During the Reporting Period, the Group had achieved the waste reduction goals. The Group generated and effectively disposed of approximately 184.78 tonnes of hazardous waste and approximately 3,626.86 tonnes of non-hazardous waste.

Greenhouse gas emissions

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

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

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

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

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

During the Reporting Period, the Group's emitted carbon dioxide has met the emission goal it set. The total carbon dioxide emitted by the Group was approximately 32,074.20 tonnes, of which carbon dioxide emission indirectly caused by energy was approximately 25,334.85 tonnes. (Note: The information is calculated based on the calculated energy consumption including electricity, natural gas, diesel and gasoline, and the carbon emission factors published in the "Guide to Calculating Greenhouse Gas Emissions from Energy Consumption" (《能源消耗引起的溫室氣體排放計算指南》) prepared by the World Energy Institute, but the information is only an estimate as the CO_2 emissions from fuel consumption are closely related to factors such as the composition of the oil and the performance of the engine.)

Use of Resources

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

Electricity resources

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

- o 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.

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

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

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

- o The Group actively participated in the pilot project of using clean energy by a third-party supplier specializing in solar power generation through the installation of solar panels for the roof and using the solar energy converted electricity in the actual production process. (Note: This has effectively increased the Group's use of clean energy, reduced the consumption of purchased electricity, and saved electricity expenses. For example, in the Nantong manufacturing base, solar power usage can account for approximately 14.90% of the total electricity consumption of the entire manufacturing base in months with sufficient light.)

Water Resources

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

- o The Group has renovated the drinking water facilities workshops since 2022, changing the water supply through the drinking fountain to direct water supply from the water room through the pipeline, eliminating the need to specifically clean and seal the water drums used in the loop. The Group has set up 61 drinking points, replacing 102 water dispensers that were previously in daily use. After the renovation, the Group saved 40 water dispensers and 200 water barrels, eliminating the daily need to clean, package and transport approximately 110 barrels of water. As such, approximately 80.3 tonnes of pure water for bucket cleaning will be saved every year.

- o The Group has integrated the concept of energy saving into the product design and, since 2022, optimised the design of the spray ball for cleaning in the container equipment, which has obvious water saving effect compared with the common spray ball. According to the calculation that a container equipment needs to be cleaned 200 times a year, each equipment can save about 277 tonnes of water per year, and at the same time, the water flow is reduced, thus enabling each equipment to save about 200 kilowatt hours of electricity per year.

Paper resources

As for the paper consumption in the office process, on the one hand, the Group controls the total amount of paper consumption by recording the paper consumption of each department on a monthly basis to reduce waste. On the other hand, the Group advocates paperless office and delivery of materials in electronic form. During the Reporting Period, the cost saved by the Group was approximately RMB243,900 by promoting the delivery of materials in electronic form.

Packaging materials

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

Oil and gas resources

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

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

Category	Name	Consumption	Unit	Intensity	Intensity Unit
Water, electricity and gas	Water	1,120,789.95	Tonnes	152.28	tons/RMB million revenue
	Electricity	32,302.46 (including approximately 4,786.22 thousand Kwh of photovoltaic power generation)	Thousands of kilowatt hours (Kwh)	4.39	Thousand kWh/RMB million revenue
	Natural gas	2,907,573.51	m^3	395.04	m^3/RMB million revenue
Paper	Printing paper	45.67	Tonnes	0.01	tonnes/RMB million revenue
Packaging materials	Rain-proof cloth/bag	559,722.48	sq.m.	76.05	sq.m./RMB million revenue
	Wooden board/ wooden box	17,119.79	sq.m.	2.33	sq.m./RMB million revenue
	Wooden cubes/ wooden brackets	809.07	sq.m.	0.11	m^3/RMB million revenue
	Iron saddle/frame	1,614.41	Tonnes	0.22	tonnes/RMB million revenue
	Tray	11,369.88	sq.m.	1.54	sq.m./RMB million revenue
	Drying agent	17,928.91	kg	2.44	kg/RMB million revenue
	Packing Tape/ Plywood Tape	7,307.63	m	0.99	m/RMB million revenue
Fuel consumption	Petrol	99,334.57	Litre	13.50	litre/km
	Diesel	95,807.22	Litre	13.02	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 RMB1,046,800; (2) environmental protection equipment and construction in progress of approximately RMB1,079,800; and (3) environmental protection-related external service fees of approximately RMB1,875,800.

Climate Change

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

Climate-related risks include transition risks related to a low-carbon economy and physical risks related to the impact of climate changes. However, opportunities are always accompanied by risks. The global demand for a green economy and low-carbon transformation presents additional opportunities for businesses. To achieve resource conservation and efficient utilization, enterprises must enhance their technology and develop innovative processes, which can, in turn, generate new development opportunities. Furthermore, driven by the demand for green markets, enterprises actively develop products and services through research and development that better meet market needs. This approach helps attract more new and existing customers, leading to mutual success with the Group. Taking into account the relevant risks identified by the TCFD (Task Force on Climate-related Financial Disclosures), the Group has identified the following climate change risks related to the Group. The Group actively responds to climate change by reducing energy consumption, meeting pollutant emission standards, recycling packaging and other auxiliary materials, from the perspectives of process technology optimization, equipment energy efficiency improvement, and green ecological product design, with a view to reducing the impact of its operations on the environment, so as to achieve green and low-carbon development. The Group also helps business partners contribute to the fight against climate change by providing products and services to customers in fields such as renewable energy and environmental protection. In February 2023, the Group entered into an agreement with a world-renowned clean technology company, pursuant to which the Group will provide a modern biofuel additive production facility to that company. Upon completion, this production facility will be capable of processing approximately 200,000 tonnes of non-recyclable waste and wood waste annually, producing approximately 125 million litres of biofuel and renewable chemicals. In December 2023, the Group completed the delivery of a biofuel plant for an international oil conglomerate. This plant will produce biodiesel and sustainable aviation fuel using waste materials such as vegetable oil, animal fat, used cooking oil and other agricultural and industrial residues.

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

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

SOCIAL PERFORMANCE

Employment Policy and Care for Employees

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

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

The Group has formulated a sound performance appraisal system and policies on remuneration and benefits of the employees, and implemented a performance appraisal method that integrates the "Balanced Score Card (BSC)" and "Key Performance Indicator (KPI)" to conduct monthly, semi-annual and annual work performance assessments on employees under the principles of fairness and justice and in accordance with the prescribed operating procedures, so as to make comprehensive assessments the employees' work performance, business capabilities, etc., and take the assessment results as an important basis for bonus distribution, salary adjustment, job promotion, and selection and evaluation of employees. The Group pays labour remunerations to employees on time and in full every month, and pays various insurances according to law, and provides employees with various allowances (job allowance, qualification allowance, high temperature allowance, etc.), subsidies (rental subsidies, night shift subsidies, etc.), gift money, consolation money, assessment bonuses and year-end bonuses and other remuneration and benefits; for employees who meet specific conditions, the Group will provide them with supplementary pensions and commercial insurance for accidents, critical illnesses, and health; for employees who have served the Group for a long time and made outstanding contributions, the Group will provide additional rewards in kind or in cash. The Group strictly complies with the applicable laws and regulations regarding working hours in the locations where we operate. It also attaches great importance to the reasonable arrangement of workload and working hours, guarantees employees' rights to rest and vacation, strictly controls the approval of overtime applications, and prevents overtime hours exceeding the legal standards; in addition for public holidays and rest days, the Group provides employees with annual leave, marriage leave, maternity leave, sick leave, personal leave, condolence leave and family leave. As at 31 December 2023, the total number of employees of the Group was 4,464 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 51	Male	Female	Total number of employees
Age	1,416	1,900	838	310	/	/	4,464
Gender	/	/	/	/	3,658	806	4,464

Employment of active employees by region:

Classification	Shanghai	Jiangsu	Wuhan	Sweden	India	Japan	USA	Hong Kong	Italy	Singapore	Malaysia	Total number of employees
Region	2,237	1,728	197	12	72	40	7	2	4	4	161	4,464

Employment of active employees by employment type:

Classification	Permanent	Contract	Total number of employees
Employment type	4,241	223	4,464

During the Reporting Period, the Group has been upholding a people-oriented management philosophy and has launched various caring activities such as staff medical check-ups, staff birthday parties every month, housekeeping services, caring vehicles, etc. Donations have been raised for employees in difficulties or suffering from illnesses. With the above, the Group demonstrated love and care to its employees from their work to their lives in hopes of increasing the satisfaction and sense of belonging of its employees. In order to help families with both parents working with the Group solve the problem of unattended children during summer vacation, the Group has held 6 consecutive sessions of summer care classes, which was one of the first batch of "Employee Parent-Child Studios (職工親子工作室)" listed by the Shanghai Federation of Trade Unions (上海市總工會), and won the title of "Loving Summer Care School of National Trade Union (全國工會愛心暑托班)". In order to consolidate and promote the construction of a gender equality mechanism, solve female employees' worries about the work after childbirth, and provide pregnant and breastfeeding female employees with a more comfortable place to rest, the Group has established a "mother and baby room", which was awarded the title of "Four-Star Loving Mommy House (四星級愛心媽咪小屋)" by the Female Workers Committee of the Shanghai Federation of Trade Unions in May 2019. Nevertheless, due to the challenging and competitive recruitment and retention process in the industry, 804 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 51	Male	Female	Total number of employees
Age	421	281	75	27	/	/	804
Gender	/	/	/	/	728	76	804

Former Employees by region:

Classification	Shanghai	Jiangsu	Wuhan	Sweden	India	Japan	USA	Hong Kong	Italy	Singapore	Malaysia	Total number of employees
Region	345	365	15	1	8	8	3	0	0	0	59	804

Occupational health and safety policies and compliance

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

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

During the Reporting Period, the Group had 15 work-related accidents, resulting in a total of 665 lost working days. In the past three years (including the Reporting Period), the Group recorded 1 work-related fatality, which was caused by gravity dumping during the handling of the liquid storage module.

To further improve the occupational safety environment and prevent the recurrence of similar accidents, the Group continuously improves and strengthens internal control measures, including (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 formulated an effective talent strategy. For details, please refer to the section headed "Management Discussion and Analysis" in this annual report. The Group has set up a dedicated department, the Training Center, to coordinate training resources, formulate annual training plans, 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 Group organises 1 to 2 sessions of youth cadre training classes and senior management reserve classes annually, with each lasting about half a year. We will invite external or internal lecturers to deliver courses on various topics. These courses are aimed at developing the participants' learning capabilities and management skills, enabling them to gradually become the management of the Group. In addition, the Group encourages and supports employees to pursue further education at universities in China and abroad, providing tuition subsidies if they meet the relevant criteria.

The employee training data is as follows:

Employee category	Gender	Percentage of employees trained	Average training hours
Employees engaged in production work	Male	100%	19.09 hours/person
	Female	100%	16.83 hours/person
Employees not engaged in production work	Male	100%	12.23 hours/person
	Female	100%	14.32 hours/person

Labour Practices and Compliance

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

Supply Chain Management

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

As at 31 December 2023, the Group had approximately 1,794 suppliers related to production activities, of which approximately 1,427 were domestic suppliers and 367 were overseas suppliers. The domestic suppliers include 24 in Northeast China, 63 in North China, 1,209 in East China, 50 in South China, 34 in Central China, 26 in Northwest China and 21 in Southwest China. Overseas suppliers are located in the USA, Japan, Germany, Switzerland, Singapore, Malaysia and the United Kingdom.

Product Responsibility

The Group strictly abides by the laws and regulations applicable to product responsibility, advertising, labeling, and privacy protection in the regions where it operates, and the Group's product quality control system has passed the ISO 9001:2015 standard certification. For core equipment, the Group has established systems such as the "Pressure Vessel Design Management System", "Production Process Control" and "Non-destructive Testing Control". For modular factories, the Group has developed systems including the "Standard Operational Procedures for Modular Process Design", "Operational Guidance for Pipeline Layout Design" and "Standard Operational Procedures for Modular Assembly Design". To ensure effective implementation of product quality management, we have established the "Regulations for Point-based Quality Assessment". At the same time, the Group has adopted the Plan-Do-Check-Act cycle as its management philosophy to continuously improve product quality and product quality control by monitoring and measuring all aspects of the production management process through various regular and irregular inspections. The products sold by the Group are all non-standard products customized by customers. Thanks to the continuous communication with customers during the design, construction and acceptance of projects, the Group did not have any recalls of sold or delivered products for safety and health reasons during the Reporting Period.

The Group distributes the Customer Satisfaction Survey Form to customers every year to collect customer feedback. The assessment satisfaction is divided into A, i.e. very satisfied, B, i.e. satisfied, C, i.e. average, D, i.e. relatively dissatisfied, E, i.e. dissatisfied and give up. During the Reporting Period, the Group issued a total of 2,956 Customer Satisfaction Survey Forms, of which 33 chose give up, and the remaining satisfaction results are: 61.31% chose A, i.e. very satisfied, 37.36% chose B, i.e. satisfied, 0.72% chose C, i.e. average, and 0.21% chose D, i.e. relatively dissatisfied, and 0.41% chose dissatisfied, and the overall customer satisfaction rate was 97.56%. The Group has set up an after-sales service department to receive complaints from customers and 18 complaints were received during the Reporting Period in relation to products and services. After receiving the complaints from customers, the after-sales service department worked with the relevant departments to discuss the substance of the problems, formulate solutions and implement rectification to ensure customer satisfaction. At the same time, the Group will determine the responsibility, identify the specific department responsible, formulate preventive and corrective measures, and provide training to relevant personnel to prevent the recurrence of the problem.

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

Data Protection and Privacy Policies

The Group is committed to protecting the privacy of its customers, employees, partners and suppliers by maintaining a secure and reliable data retention environment. The Group has formulated a Confidentiality Implementation Policy (《保密工作實施細則》), pursuant to which the confidentiality working group 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 setting rules and hardware and software configurations to prevent unauthorized access to confidential information by employees.

During the Reporting Period, the Group passed the ISO/IEC 27001:2013 standard certification and established an information security working group under the information management department to further strengthen the security of the Group's information and data systems. During the Reporting Period, all personal and business data collected in the Group's business activities were properly collated and protected.

Protection of Intellectual Property Rights

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

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

Anti-corruption policies

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

- The code of conduct for employees clearly sets out the code of conduct related to anti-corruption and anti-bribery.
- Implement adequate financial controls and strictly comply with segregation of duties and authorization approval requirements for payment disbursements.
- Strengthen controls in non-financial areas such as procurement, operation, sales, human resources, legal and regulatory activities. For example, for sales activities, at least two persons are required to participate in bid evaluation and signing of sales contracts; for procurement activities, more than two bidders are required to conduct fair and transparent bidding before confirming suppliers and signing procurement contracts; and strict registration and approval management shall be implemented for activities like offering gifts and business entertainment.
- Require business partners to implement anti-bribery control measures, sign integrity agreements with suppliers, and require business partners to make anti-bribery commitments.
- Sign integrity and self-discipline commitment letters with employees, and relevant employees are required to regularly report conflicts of interest such as external investment.
- Regularly conduct education and training on anti-corruption and anti-bribery to raise the awareness of anticorruption and anti-bribery compliance among directors and employees.
- Conduct regular compliance checks on high-risk projects, activities, business partners, employees in specific positions, etc.
- Establish reporting hotline, general manager mailbox and audit committee mailbox to encourage employees, business partners and other stakeholders to report intended, suspected or actual acts of bribery, and establish a reporting process and investigation mechanism.

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

Community investment

The Group actively participates in community construction and social welfare, and strives to build a harmonious relationship with the community to achieve the harmonious development of the enterprise and the community. In China, the Group, East China University of Science and Technology and Zhengzhou University have set up the "Morimatsu Class", which not only provides scholarships and corporate internship opportunities for the students of the "Morimatsu Class", but also sends experienced engineers to give lectures, and share cutting-edge technologies and industry development trends, striving to break through the academic and professional barriers of colleges and universities, and cultivate cross-sector talents who are proficient in interdisciplinary knowledge for the entire industry; the Group cooperates with Shanghai Jiaotong University, East China University of Science and Technology and other colleges and universities for research and development, to, on the one hand, provide a practical platform for theoretical research and technical practice in colleges and universities, and, on the other hand, improve the research and development capabilities and efficiency of the Group, optimize the design of pressure equipment, improve product quality, and maintain a competitive advantage; the Group provides student internship positions to Shanghai Jiaotong University, East China University of Science and Technology, University of Shanghai for Science and Technology and Nanjing Tech University, providing training opportunities for college students to practice theories. In Japan, the Group donated JPY3 million to Kyoto University for research on power semiconductor film formation technology and microreactors; JPY5 million to Tokyo University of Agriculture and Technology for research on compound semiconductor film formation technology; JPY5 million to Yamaguchi University for research on compound semiconductor film formation technology; JPY16.79 million to Tohoku University for research on high-pressure fluid technology and carbon materials for batteries; JPY1 million to Osaka Metropolitan University for research on improving biomass fuel production through genetic engineering; and JPY500,000 to Kagoshima University for research on convective emulsion column extraction technology. In order to give back to society, during the Reporting Period, the Group donated a camphor tree forest to Jincai High School in Shanghai in a total amount of RMB20,000. The Group participated in a poverty alleviation and donation activity in Rugao City and Yang County, expressing care for those in need by donating RMB10,000. The Group also made a donation of USD21,000 to the United Way of Metropolitan Dallas.

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

KEY PERFORMANCE INDEX ("KPI") REFERENCE TABLE

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

Independent Auditor's Report

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 115 to 208, which comprise the consolidated statement of financial position as at 31 December 2023, 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, comprising material accounting policy information and other explanatory information.

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 2023 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 139 to 142 (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 139 to 142 (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 2023 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 139 to 142 (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 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
28 March 2024

Consolidated Statement of Profit or Loss

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Revenue	3	**7,360,262**	6,486,277
Cost of sales		**(5,304,558)**	(4,692,891)
Gross profit		**2,055,704**	1,793,386
Other income/(loss)	4	**85,462**	(701)
Selling and marketing expenses		**(175,228)**	(184,460)
General and administrative expenses		**(543,143)**	(510,448)
Research and development expenses		**(418,149)**	(316,084)
Reversal of/(provision for) impairment loss on trade receivables and contract assets	29(a)	**861**	(100)
Profit from operations		**1,005,507**	781,593
Finance costs	5(a)	**(13,291)**	(15,951)
Shares of results of associates	14	**4**	(2)
Shares of results of joint venture	15	**(7,886)**	(4,723)
Profit before taxation	5	**984,334**	760,917
Income tax	6(a)	**(141,786)**	(94,735)
Profit for the year		**842,548**	666,182
Attributable to:			
Equity shareholders of the Company		**844,684**	669,266
Non-controlling interests	13	**(2,136)**	(3,084)
Profit for the year		**842,548**	666,182
Earnings per share	9		
Basic (RMB)		**0.73**	0.64
Diluted (RMB)		**0.67**	0.58

The notes on pages 122 to 208 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Profit for the year		**842,548**	666,182
Other comprehensive income for the year			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of the Company		**25,531**	615
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland China		**3,595**	(1,348)
Other comprehensive income for the year		**29,126**	(733)
Total comprehensive income for the year		**871,674**	665,449
Attributable to:			
Equity shareholders of the Company		**873,810**	668,533
Non-controlling interests	13	**(2,136)**	(3,084)
Total comprehensive income for the year		**871,674**	665,449

The notes on pages 122 to 208 form part of these financial statements.

Consolidated Statement of Financial Position

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	10	**2,105,463**	1,609,565
Right-of-use assets	11	**189,565**	198,888
Intangible assets	12	**30,612**	31,079
Interests in associates	14	**65,361**	20,016
Interest in joint venture	15	**57,428**	6,155
Financial assets measured at fair value through profit or loss ("**FVPL**")	29(e)	**10,100**	10,000
Deferred tax assets	24(b)	**13,991**	7,120
Other non-current assets	16	**65,577**	243,212
		2,538,097	2,126,035
Current assets			
Inventories	17	**1,800,466**	2,213,728
Contract assets	18(a)	**866,310**	830,927
Trade and other receivables	19	**1,499,372**	1,165,785
Financial assets measured at fair value through profit or loss ("**FVPL**")	29(e)	**59,149**	253,748
Cash and cash equivalents	20	**2,168,682**	1,370,359
		6,393,979	5,834,547
Current liabilities			
Trade and other payables	21	**1,669,850**	1,633,543
Contract liabilities	18(b)	**2,290,334**	2,890,048
Financial liabilities measured at fair value through profit or loss ("**FVPL**")	29(e)	**—**	1,240
Interest-bearing borrowings	22	**185,524**	254,599
Lease liabilities	23	**4,312**	6,059
Current taxation	24(a)	**90,089**	68,467
Provisions	25	**30,904**	25,450
		4,271,013	4,879,406
Net current assets		**2,122,966**	955,141
Total assets less current liabilities		**4,661,063**	3,081,176

The notes on pages 122 to 208 form part of these financial statements.

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Non-current liabilities			
Interest-bearing borrowings	22	**179,559**	189,634
Lease liabilities	23	**14,938**	17,104
Deferred tax liabilities	24(b)	**31,593**	9,358
Deferred income	26	**44,364**	42,434
		270,454	258,530
Net assets		**4,390,609**	2,822,646
Capital and reserves	28		
Share capital		**1,302,751**	643,657
Reserves		**3,079,740**	2,172,073
Total equity attributable to equity shareholders of the Company		**4,382,491**	2,815,730
Non-controlling interests	13	**8,118**	6,916
Total equity		**4,390,609**	2,822,646

Approved and authorised for issue by the board of directors on 28 March 2024.

Weihua Tang)
) *Directors*
Ye Sheng)

The notes on pages 122 to 208 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000 Note 28(b)	Treasury stock RMB'000 Note 28(b)	Capital reserve RMB'000 Note 28(f)	Other reserve RMB'000 Note 28(g)	Exchange reserve RMB'000 Note 28(c)	Retained earnings RMB'000	Total equity RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company								
Balance at 31 December 2022 and 1 January 2023		**643,657**	**(36,580)**	**604,772**	**8,837**	**(7,761)**	**1,602,805**	**2,815,730**	**6,916**	**2,822,646**
Profit for the year		–	–	–	–	–	844,684	844,684	(2,136)	842,548
Other comprehensive income for the year		–	–	–	–	29,126	–	29,126	–	29,126
Total comprehensive income for the year		–	–	–	–	29,126	844,684	873,810	(2,136)	871,674
Allotment of shares	28(b)(i)	567,206	–	–	–	–	–	567,206	–	567,206
Investment from non-controlling shareholder		–	–	–	–	–	–	–	3,338	3,338
Equity settled share-based payment	27	–	–	91,688	–	–	–	91,688	–	91,688
Issuance and repurchase of ordinary shares to the Company	28(b)(ii)	37,110	(37,110)	–	–	–	–	–	–	–
Exercise of share option and RSUs	28(b)(iii)	54,778	34,746	(55,467)	–	–	–	34,057	–	34,057
Balance at 31 December 2023		**1,302,751**	**(38,944)**	**640,993**	**8,837**	**21,365**	**2,447,489**	**4,382,491**	**8,118**	**4,390,609**

The notes on pages 122 to 208 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000 Note 28(b)	Treasury stock RMB'000 Note 28(b)	Capital reserve RMB'000 Note 28(f)	Other reserve RMB'000 Note 28(g)	Exchange reserve RMB'000 Note 28(c)	Retained earnings RMB'000	Total equity RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at 31 December 2021 and 1 January 2022 as restated		571,769	—	500,692	8,837	(7,028)	933,539	2,007,809	—	2,007,809
Profit for the year		—	—	—	—	—	669,266	669,266	(3,084)	666,182
Other comprehensive income for the year		—	—	—	—	(733)	—	(733)	—	(733)
Total comprehensive income for the year		—	—	—	—	(733)	669,266	668,533	(3,084)	665,449
Investment from non-controlling shareholder		—	—	—	—	—	—	—	10,000	10,000
Equity settled share-based payment	27	—	—	139,387	—	—	—	139,387	—	139,387
Issuance and repurchase of ordinary shares to the Company	28(b)(i)	36,581	(36,581)	—	—	—	—	—	—	—
Exercise of share option	28(b)(ii)	35,307	1	(35,307)	—	—	—	1	—	1
Balance at 31 December 2022		643,657	(36,580)	604,772	8,837	(7,761)	1,602,805	2,815,730	6,916	2,822,646

The notes on pages 122 to 208 form part of these financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Operating activities:			
Cash generated from operations		**776,076**	944,411
Income tax paid	24(a)	**(104,800)**	(62,037)
Net cash generated from operating activities	20(b)	**671,276**	882,374
Investing activities:			
Payment for the purchase of long-term assets		**(570,779)**	(867,054)
Proceeds from sale of property, plant and equipment and intangible assets		**2,623**	1,124
Cash paid for acquisition of subsidiary		**—**	(8,187)
Cash receivable from acquisition of subsidiary		**—**	7,120
Payment for the equity method investments		**(104,501)**	(30,018)
Cash received or paid for the sales or purchase of monetary fund		**194,748**	(252,800)
Proceeds from disposal of monetary fund		**10,014**	8,627
Interest received		**59,765**	15,259
Net cash used in investing activities		**(408,130)**	(1,125,929)
Financing activities:			
Capital element of lease rentals paid	20(c)	**(6,401)**	(7,149)
Proceeds from bank loans	20(c)	**102,999**	430,922
Repayment of bank loans	20(c)	**(180,000)**	(363,481)
Proceeds from exercise of share options and RSUs		**34,057**	1
Proceeds from allotment of shares	28(b)(i)	**567,206**	—
Cash received from non-controlling shareholder		**3,338**	10,000
Interest element of lease rentals paid	20(c)	**(922)**	(538)
Interest paid	20(c)	**(13,302)**	(12,705)
Net cash generated from financing activities		**506,975**	57,050
Effect of foreign exchange rate changes on cash and cash equivalents		**28,202**	7,989
Net increase/(decrease) in cash and cash equivalents		**798,323**	(178,516)
Cash and cash equivalents at 1 January		**1,370,359**	1,548,875
Cash and cash equivalents at 31 December		**2,168,682**	1,370,359

The notes on pages 122 to 208 form part of these financial statements.

1 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and the disclosure requirements of the Hong Kong Companies Ordinance. 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. Material accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in associates and a joint venture.

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

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

— Investment in unlisted equity securities (Note 1(f)(ii));

— Monetary fund (Note 1(f)(i)); and

— Forward exchange contracts (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.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

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

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

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

HKFRS 17, *Insurance contracts*

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

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

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

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

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

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

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and did not recognise the related deferred tax as the impact was immaterial on both a gross and a net basis. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in Note 24(b), but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

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

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

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. 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.

For each business combination, the Group can elect to measure any non-controlling interests ("**NCI**") either at fair value or at the NCI's proportionate share of the subsidiary's net identifiable assets. NCI are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. NCI 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 NCI and the equity shareholders of the company. Loans from holders of NCI 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.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

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 it is classified as held for sale (or included in a disposal group classified as held for sale).

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(e) Associates and joint ventures

An associate is an entity in which the Group or the company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group or the company has joint control, whereby the Group or the company has the rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

An interest in an associate or a joint venture is accounted for using the equity method, unless it is classified as held for sale (or included in a disposal Group classified as held for sale). They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("**OCI**") of those investees, until the date on which significant influence or joint control ceases.

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, after applying the ECL model to such other long-term interests where applicable (see Note 1(k)(i)).

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

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

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities

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

Investments in 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 FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 29(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Non-equity investments

Non-equity investments 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. Expected credit losses, interest income calculated using the effective interest method (see Note 1(u)(ii)(c)), foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

— 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. Expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognised in profit or loss and computed in the same manner as if the financial asset was measured at amortised cost. The difference between the fair value and the amortised cost is recognised in OCI. When the investment is derecognised, the amount accumulated in OCI is recycled from equity to profit or loss.

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

(ii) Equity investments

An investment in equity securities is classified as FVPL, unless the investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in OCI. 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. If such election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and 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 (see Note 1(u)(ii)(b)).

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(g) Derivative financial instruments

The Group holds derivative financial instruments to manage its foreign currency and interest rate risk exposures.

Derivatives are initially measured at fair value. Subsequently, they are measured at fair value with changes therein recognised in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation.

(h) Property, plant and equipment

The following items of property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses (see Note 1(k)(ii)):

— right-of-use assets arising from leases over freehold or 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)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment less their estimated residual values, if any, using the straight line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

— Leasehold land is depreciated over the unexpired term of lease.

— The Group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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)

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses (see Note 1(k)(ii)).

Expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

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

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case 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.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), 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 leases that have a short lease term of 12 months or less, and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss 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 recognised 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 are charged to profit or loss as 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 adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and 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, 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 (see 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 (see Note 1(l)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will 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.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification 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.

(ii) As a lessor

The Group 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. Otherwise, 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)(a).

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(j)(i), then the Group classifies the sub-lease as an operating lease.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(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 ("**ECL**"s) on:

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

— contract assets (see Note 1(m));

— lease receivables; and

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect 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.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

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

1 MATERIAL 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 *(Continued)*

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

— financial instruments that are determined to have low credit risk at the reporting date; and

— other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

— the debtor 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

— the financial asset is 90 days past due.

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 non-equity securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in OCI and accumulated in the fair value reserve (recycling) does not reduce the carrying amount of the financial asset in the statement of financial position.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

Credit-impaired financial assets

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 being more than 90 days past due;

— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

— it is probable that the debtor will enter bankruptcy or other financial reorganisation; 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 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 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than property carried at revalued amounts, investment property, inventories and other contract costs, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are Grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("**CGU**"s). Goodwill arising from a business combination is allocated to CGUs or Groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been 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 Notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(l) Inventories and other contract costs

(i) Inventories

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

Cost is calculated using the weighted average cost formula 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.

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 1(u)(i)) before being unconditionally entitled to the consideration under the terms in the contract. Contract assets are assessed for ECLs (see Note 1(k)(i)) and are reclassified to receivables when the right to the consideration becomes 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)(i)). A contract liability is also recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such latter cases, a corresponding receivable is also recognised (see Note 1(n)).

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

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 subsequently stated at amortised cost (see Note 1(k)(i)).

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, property pre-sale proceeds held by solicitors that are held for meeting short-term cash commitments, and other 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL (see Note 1(k)(i)).

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(p) Trade and other payables (other than refund labilities)

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.

(q) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with Note 1(w).

(r) Employee benefits

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

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(ii) Share-based payments

The grant-date fair value of equity-settled share-based payments granted to employees is measured using the binomial lattice model. The amount is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service conditions at the vesting date.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(s) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

— temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

— temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

— taxable temporary differences arising on the initial recognition of goodwill; and

— those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(t) Provisions, contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 1(k)(ii)).

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.

(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.

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

(i) Revenue from contracts with customers

The Group is the principal for its revenue transactions and recognises revenue on a gross basis, including the sale of pressure equipment and related services that are sourced externally. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(i) Revenue from contracts with customers *(Continued)*

(a) Sales of pressure equipment and related services

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

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

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

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

The Group designs and manufactures the pressure equipment in accordance with the customer's specification which does not have an alternative use to the Group. Under contracts for which the Group has a right to be paid for work done to date in the event a customer decides to cancel the contract before the contract was fully completed, revenue arising from the contract, and a corresponding contract asset (see Note 1(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 pressure equipment that the Group does not have the right to be paid for work performed to date, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenue is recognised when the customer takes possession of and accepts the products.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(i) Revenue from contracts with customers *(Continued)*

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional (see Note 1(m)). It is assessed for impairment in accordance with HKFRS 9 (see Note1(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) Revenue from other sources and other income

(a) ***Rental income from operating leases***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. 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.

(b) ***Dividends***

Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

(c) ***Interest income***

Interest income is recognised using the effective interest method. The "effective interest rate" is 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. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Revenue from other sources and other income *(Continued)*

(d) Government grants

Government grants are recognised in the statement 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 deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

— an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Hong Kong dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Hong Kong dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to NCI.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies *(Continued)*

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(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.

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

(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.

(y) Segment reporting

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

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

1 MATERIAL ACCOUNTING POLICIES *(Continued)*

(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

Notes 27 and 29 contain information about the assumptions and their risk factors relating to valuation of fair value of share options granted and financial instruments. Other significant sources of estimation uncertainty are as follows:

(i) Revenue recognition

As explained in policy Note 1(u)(i), revenue from sales of pressure equipment and related services are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date.

Based on the Group's recent experience and the nature of the manufacturing and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in Note 18 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Warranty provisions

As explained in Note 25, the Group makes provisions under the warranties it gives on sales of 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	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— traditional pressure equipment	**2,590,675**	2,662,892
— reactor	**1,114,356**	1,399,610
— heat exchanger	**739,517**	567,805
— tank	**352,902**	347,012
— tower	**383,900**	348,465
— modular pressure equipment	**4,553,792**	3,648,656
— others*	**31,325**	32,274
Sales of products	**7,175,792**	6,343,822
— Pressure equipment design, validation, and maintenance service	**184,470**	142,455
Service	**184,470**	142,455
Revenue of operations	**7,360,262**	6,486,277

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

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 2023 (2022: one). Revenues from this customer during year ended 31 December 2023 are set out below:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Customer A	**798,967**	*
Customer B	*	731,994

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

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

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

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

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

(b) Segment reporting

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

4 OTHER INCOME/(LOSS)

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

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(a) Finance costs:		
Interest on interest-bearing borrowings	**12,369**	15,413
Interest on lease liabilities	**922**	538
	13,291	15,951
(b) Staff costs:		
Salaries, wages and other benefits	**1,128,338**	857,619
Equity-settled share-based payment expenses (Note 27)	**91,688**	139,387
Contributions to defined contribution retirement plans (i)	**111,486**	88,510
	1,331,512	1,085,516

(i) Employees of the Group's subsidiaries in the 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: *(Continued)*

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(c) Other items:		
Amortisation of intangible assets	**17,367**	15,371
Depreciation charge		
— owned property, plant and equipment	**116,263**	89,668
— right-of-use assets	**11,811**	8,775
Auditor's remuneration		
— audit services	**4,070**	3,890
Research and development costs (i)	**418,149**	316,084
Increase in provisions (Note 25)	**12,964**	14,487
Cost of inventories (ii)	**5,304,558**	4,692,891
Expense relating to short-term leases	**65,713**	44,811

(i) Research and development costs included staff costs of RMB194,026,000 (2022: RMB155,469,000), depreciation and amortisation expenses of RMB10,704,000 (2022: RMB10,296,000), which are also included in the respective total amounts disclosed separately above or in Note 5(b).

(ii) Cost of inventories included staff costs of RMB628,220,000 (2022: RMB538,824,000), depreciation and amortisation expenses of RMB98,259,000 (2022: RMB61,968,000), which are also included in the respective total amounts disclosed separately above or in Note 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	
	2023	2022
	RMB'000	RMB'000
Current tax:		
Provision for the year	**126,422**	96,623
Deferred tax:		
Origination and reversal of temporary differences	**15,364**	(1,888)
Actual tax expense	**141,786**	94,735

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

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

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 companies use the losses arising from the previous years and did not have income subject to Hong Kong Profits Tax during 2023 and 2022 respectively.

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

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

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

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

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. was liable to the Italy Corporate Tax at a rate of 24% in 2023 and 2022. No provision for Italian Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italian Corporate Tax during the reporting period.

Pursuant to the income tax rules and regulations of Mexico, Permanent Establishment in Mexico, the branch of Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. was liable to the Mexico Corporate Tax at a rate of 30% in 2023 and 2022. No provision for Mexican Corporate Tax was made for Permanent Establishment in Mexico as the company did not have income subject to Mexican Corporate Tax during the reporting period.

Pursuant to the income tax rules and regulations of Singapore, Morimatsu Pharmadule (Singapore) Pte. Ltd., Morimatsu Lifesciences (Singapore) Pte. Ltd. and Morimatsu (Singapore) Pte. Ltd, which were established in 2023, were subject to the Singapore Corporate Tax at a rate of 17% in 2023. No provision for Singapore Corporate Tax was made for Morimatsu Pharmadule (Singapore) Pte. Ltd., Morimatsu Lifesciences (Singapore) Pte. Ltd. and Morimatsu (Singapore) Pte. Ltd. as the companies did not have income subject to Singapore Corporate Tax during the reporting period.

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)*

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

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

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

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

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

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

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

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 2023

	Director's fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 Note 27	Total RMB'000
Executive directors							
Mr. Wei Hua Tang	144	728	2,105	68	3,045	3,728	6,773
Mr. Ye Sheng	144	622	2,242	68	3,076	3,728	6,804
Mr. Koei Nishimatsu	144	3,395	589	–	4,128	5,326	9,454
Mr. Jungo Hirazawa	144	931	119	–	1,194	1,601	2,795
Mr. Hirotaka Kawashima	144	1,020	374	–	1,538	1,864	3,402
Non-executive director							
Mr. Terumoto Matsuhisa	163	–	–	–	163	7,913	8,076
Independent directors							
Ms. Chan Yuen Sau Kelly	163	–	–	–	163	–	163
Mr. Kanno Shinichiro	163	–	–	–	163	–	163
Mr. Yu Jianguo	163	–	–	–	163	–	163
	1,372	6,696	5,429	136	13,633	24,160	37,793

7 DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2022

	Director's fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 Note 27	Total RMB'000
Executive directors							
Mr. Wei Hua Tang	144	321	2,199	62	2,726	4,413	7,139
Mr. Ye Sheng	144	267	2,353	62	2,826	4,413	7,239
Mr. Koei Nishimatsu	144	2,461	595	—	3,200	6,305	9,505
Mr. Jungo Hirazawa	144	950	71	—	1,165	1,894	3,059
Mr. Hirotaka Kawashima	144	1,469	379	—	1,992	2,206	4,198
Non-executive director							
Mr. Terumoto Matsuhisa	161	—	—	—	161	9,366	9,527
Independent directors							
Ms. Chan Yuen Sau Kelly	161	—	—	—	161	—	161
Mr. Kanno Shinichiro	161	—	—	—	161	—	161
Mr. Yu Jianguo	161	—	—	—	161	—	161
	1,364	5,468	5,597	124	12,553	28,597	41,150

Mr. Wei Hua Tang, Mr. Ye Sheng, Mr. Koei Nishimatsu, Mr. Jungo Hirazawa, and Mr. Hirotaka Kawashima were appointed as executive director of the Company on 1 September 2020. Mr. Terumoto Matsuhisa was appointed as non-executive director of the Company on 1 September 2020. They are also key management personnel of the Group during the reporting period. The remuneration disclosed above include those for services rendered by them as key management personnel.

During 2023 and 2022, 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 2023, three are directors (2022: three) whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the remaining two individuals during 2023 (2022: two) are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries and other emoluments	**565**	555
Discretionary bonuses	**3,358**	2,517
Share-based payments (Note 27)	**6,922**	8,193
Retirement scheme contributions	**135**	124
	10,980	11,389

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	
	2023	2022
HKD5,500,001 – HKD6,000,000	**1**	—
HKD6,000,001 – HKD6,500,000	**—**	1
HKD6,500,001 – HKD7,000,000	**1**	1
HKD7,000,001 – HKD7,500,000	**—**	—

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 RMB844,684,000 (2022: RMB669,266,000) and the weighted average of 1,163,300,000 ordinary shares (2022: 1,050,774,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2023	2022
Issued ordinary shares at 1 January	**1,073,796,000**	1,037,500,000
Effect of treasury shares at 1 January	**(20,883,000)**	—
Effect of allotment of shares (Note 28(b)(i))	**77,370,000**	—
Effect of exercise of share options (Note 28(b)(iii))	**3,550,000**	5,103,000
Effect of vested RSUs (Note 28(b)(iii))	**9,245,000**	—
Effect of vested shares options exercisable for no more than little consideration (Note (i) below)	**20,222,000**	8,171,000
Weighted average number of ordinary shares at 31 December	**1,163,300,000**	1,050,774,000

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

(b) Diluted earnings per share

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

Weighted average number of ordinary shares (diluted)

	2023	2022
Weighted average number of ordinary shares at 31 December	**1,163,300,000**	1,050,774,000
Effect of deemed issue of shares under the Company's Pre-IPO Share Option Scheme and RSU Scheme (Note 27)	**89,195,000**	105,325,000
Weighted average number of ordinary shares (diluted) at 31 December	**1,252,495,000**	1,156,099,000

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 2022 as restated	869,518	311,571	94,615	21,211	418,358	1,715,273
Additions	—	27,868	21,384	1,044	423,170	473,466
Transfer from construction in progress	350,647	93,748	5,396	2,124	(451,915)	—
Disposals	—	(2,155)	(668)	(30)	(127)	(2,980)
At 31 December 2022 and 1 January 2023	**1,220,165**	**431,032**	**120,727**	**24,349**	**389,486**	**2,185,759**
Additions	**—**	**23,615**	**21,566**	**2,062**	**566,186**	**613,429**
Transfer from construction in progress	**193,857**	**39,967**	**13,227**	**85**	**(247,136)**	**—**
Disposals	**—**	**(2,652)**	**(1,518)**	**(690)**	**(540)**	**(5,400)**
At 31 December 2023	**1,414,022**	**491,962**	**154,002**	**25,806**	**707,996**	**2,793,788**
Accumulated depreciation:						
At 1 January 2022 as restated	(257,464)	(153,767)	(64,237)	(12,784)	—	(488,252)
Charge for the year	(46,587)	(27,475)	(12,563)	(3,043)	—	(89,668)
Written back on disposal	—	1,110	589	27	—	1,726
At 31 December 2022 and 1 January 2023	**(304,051)**	**(180,132)**	**(76,211)**	**(15,800)**	**—**	**(576,194)**
Charge for the year	**(62,454)**	**(31,566)**	**(19,089)**	**(3,154)**	**—**	**(116,263)**
Written back on disposal	**—**	**2,224**	**1,330**	**578**	**—**	**4,132**
At 31 December 2023	**(366,505)**	**(209,474)**	**(93,970)**	**(18,376)**	**—**	**(688,325)**
Net book Value:						
At 31 December 2023	**1,047,517**	**282,488**	**60,032**	**7,430**	**707,996**	**2,105,463**
At 31 December 2022	916,114	250,900	44,516	8,549	389,486	1,609,565

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 2022 as restated	102,475	4,125	158	106,758
Additions	75,849	24,225	831	100,905
Depreciation charge for the year	(3,498)	(5,079)	(198)	(8,775)
Balance at 31 December 2022 and 1 January 2023	174,826	23,271	791	198,888
Additions	—	1,938	550	2,488
Depreciation charge for the year	(4,531)	(6,895)	(385)	(11,811)
Balance at 31 December 2023	**170,295**	**18,314**	**956**	**189,565**

The Group has obtained land use rights held for own use in Mainland China with remaining lease term of 30 to 50 years.

12 INTANGIBLE ASSETS

	Software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:			
At 1 January 2022	56,248	807	57,055
Additions	12,876	—	12,876
Transfer from construction in progress	394	(394)	—
Disposals	(8,746)	—	(8,746)
At 31 December 2022 and 1 January 2023	**60,772**	**413**	**61,185**
Additions	**16,159**	**2,473**	**18,632**
Transfer from construction in progress	**1,869**	**(1,869)**	**—**
Disposals	**(7,812)**	**—**	**(7,812)**
At 31 December 2023	**70,988**	**1,017**	**72,005**
Accumulated amortisation:			
At 1 January 2022	(23,353)	—	(23,353)
Charge for the year	(15,371)	—	(15,371)
Written back on disposal	8,618	—	8,618
At 31 December 2022 and 1 January 2023	**(30,106)**	**—**	**(30,106)**
Charge for the year	**(17,367)**	**—**	**(17,367)**
Written back on disposal	**6,080**	**—**	**6,080**
At 31 December 2023	**(41,393)**	**—**	**(41,393)**
Net book value:			
At 31 December 2023	**29,595**	**1,017**	**30,612**
At 31 December 2022	30,666	413	31,079

Design software and ERP software are expected to be used for 10 years.

Office administrative software are expected to be used for 3 to 5 years.

The amortisation charge for the year is included in "General and administrative expenses" and "Research and development expenses" in the consolidated statement of profit or loss.

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation, date of incorporation/business combination under the common control	Registered capital/issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Pharmadule Engineering India Private Limited ("**Pharmadule India**")	India 15 May 2017	INR49,990,000/ INR49,990,000	—	100%	Purchase of materials and design of pressure equipment
Pharmadule Morimatsu AB ("**Pharmadule Sweden**")	Sweden 3 March 2011	SEK2,000,000/ SEK2,000,000	—	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	23.6%	76.4%	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 Morimatsu Pharmaceutical Equipment and Pharmadule Morimatsu AB in the United States.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation, date of incorporation/business combination under the common control	Registered capital/issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Pharmadule Technology And Service Company Limited (Previous name: 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) LifeSciences Co., Ltd. ("**Morimatsu LifeSciences**") (森松 (蘇州) 生命科技有限公司)*#	The PRC 26 September 2021	RMB682,779,572/ RMB608,014,909	—	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/ RMB5,700,000	—	100%	Designing of modular manufacturing facilities.
Shanghai Morimatsu Biotechnology Co., Ltd. ("**Morimatsu Biotechnology**") (上海森松生物科技有限公司)*	The PRC 17 January 2022	RMB50,000,000/ RMB39,462,500	—	72.25%	Research and development of biological technology and the manufacturing and sales of related special equipment
Shanghai Mori-Biounion Technology Co., Ltd. ("**Mori-Biounion Technology**") (上海森眾生物技術有限公司)*	The PRC 24 May 2022	RMB41,300,000/ RMB34,500,000	—	42.86%**	Provision of biotechnology consulting and services, as well as the production and sales of related products
Morimatsu Houston Corporation	USA 28 February 2022 (business combination under the common control)	USD300,000/ USD300,000	—	100%	Sales activities for the Group's products in USA

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation, date of incorporation/business combination under the common control	Registered capital/issued and fully paid-up capital	Effective interest held by the Company		Principal activities
			Direct	Indirect	
Morimatsu Pharmadule Singapore Pte. Ltd ("**Pharmadule Singapore**")	Singapore 16 January 2023	SGD 3,000,000/ SGD 3,000,000	—	100%	Provision of technical and service support for the Group's business expansion in Southeast Asia
Shanghai Morimatsu Hi-Purity Neo-Tech Co., Ltd. ("**Morimatsu Hi-Purity**") 上海森松皓純新材料科技有限公司*	The PRC 3 August 2023	RMB10,000,000/ RMB4,000,000	—	88%	Development and sales of high-purity chemical reagent production technology and equipment
Shanghai Morimatsu Semi-Chem Equipment Co., Ltd. ("**Semi-Chem Equipment**") 上海森美科半導體設備有限公司*	The PRC 2 November 2023	RMB10,000,000/ Nil	—	48.4%**	Manufacture and sale of semiconductor special equipment
Morimatsu Lifesciences (Singapore) Pte. Ltd. ("**Morimatsu Lifesciences Singapore**")	Singapore 22 December 2023	SGD300,000/ Nil	—	100%	Provision of technical and service support
Morimatsu (Singapore) Pte. Ltd	Singapore 17 October 2023	SGD4,000,000/ SGD4,000,000	100%	—	Provision of technical and service support
Morimatsu Technology and Service Company Limited	Japan 1 December 2023	JPY100,000,000/ JPY100,000,000	—	100%	Provision of technical and service support

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

\# These entities are wholly foreign owned enterprises established in the PRC.

** Mori-Biounion Technology and Semi-Chem Equipment are subsidiaries of a non-wholly-owned subsidiary of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over it.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to Morimatsu Biotechnology, Mori-Biounion Technology, and Morimatsu Hi-Purity, the subsidiaries of the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2023 RMB'000			2022 RMB'000	
	Morimatsu Biotechnology	**Mori-Biounion Technology**	**Morimatsu Hi-Purity**	Morimatsu Biotechnology	Mori-Biounion Technology
NCI percentage	**27.75%**	**57.14%**	**12.00%**	21.17% (17 January 2022 to 6 June 2022)/ 27.75% (7 June 2022 to 31 December 2022)	53.24% (24 May 2022 to 6 June 2022)/ 57.14% (7 June 2022 to 31 December 2022)
Current assets	**49,699**	**10,400**	**37,225**	21,368	22,302
Non-current assets	**25,134**	**30,247**	**963**	24,945	25,244
Current liabilities	**(27,012)**	**(7,658)**	**(30,716)**	(24,702)	(3,841)
Non-current liabilities	**—**	**(12,360)**	**(136)**	—	(12,360)
Net assets	**47,821**	**20,629**	**7,336**	21,611	31,345
Carrying amount of NCI	**5,651**	**2,074**	**393**	(1,281)	8,197
Revenue	**90,660**	**1,688**	**18,852**	2,393	(147)
Profit from the year	**12,952**	**(10,716)**	**3,286**	(4,639)	(3,156)
Total comprehensive income for the year	**12,952**	**(10,716)**	**3,286**	(4,639)	(3,156)
Profit allocated to NCI	**3,594**	**(6,123)**	**393**	(1,281)	(1,803)
Cash flows from operating activities	**(10,944)**	**(10,463)**	**(3,255)**	14,195	(2,515)
Cash flows from investing activities	**(150)**	**(7,789)**	**(46)**	(28,041)	(13,252)
Cash flows from financing activities	**13,213**	**3,000**	**3,541**	26,250	33,472

14 INTEREST IN ASSOCIATES

Details of the Group's interest in the associates, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of associates	Forms of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Groups' effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Jiangsu Qunchuang Wisdom New Material Co., Ltd. ("江蘇群創智慧新材料有限公司")	Incorporated	The PRC	RMB300,000,000/ RMB120,000,000	20.00%	20.00%	Research and development, manufacturing and sales of new membrane materials
Mori-Union Microchannel Industrial Equipment Co., Ltd. ("上海森聯微通工業裝備有限公司")	Incorporated	The PRC	RMB10,000,000/ RMB1,000,000	36.00%	36.00%	Research and development of microchannel reactors
An Yi Morimatsu Gao Kun Number One Venture Capital Fund Partnership (Limited Partnership) ("安義森松高鯤壹號創業投資基金合夥企業 (有限合夥)")	Incorporated	The PRC	RMB20,200,000/ RMB20,000,000	24.75%	24.75%	Engaged in activities such as equity investment and investment management

Jiangsu Qunchuang Wisdom New Material Co., Ltd. ("**Jiangsu Qunchuang**") was established on 1 July 2022 by Morimatsu Pharmaceutical Equipment with two other investors in China. The registered capital of the company is RMB300,000,000. Morimatsu Pharmaceutical Equipment holds 20% equity interest of the company. The capital of RMB60,000,000 from Morimatsu Pharmaceutical Equipment has been injected into the company.

Mori-Union Microchannel Industrial Equipment Co., Ltd. ("**Mori-Union Microchannel**") was established on 11 July 2022 by Morimatsu Heavy Industry with three other investors in China. The registered capital of the company is RMB10,000,000. Morimatsu Heavy Industry holds 36% equity interest of the company. The capital of RMB360,000 from Morimatsu Heavy Industry has been injected into the company.

An Yi Morimatsu Gao Kun Number One Venture Capital Fund Partnership (Limited Partnership) ("**An YI**") was established on 30 May 2023 by Morimatsu Heavy Industry with seven partners in China. The registered capital of the company is RMB20,200,000. Morimatsu Heavy Industry holds 24.75% equity interest of the company. The capital of RMB5,000,000 from Morimatsu Heavy Industry has been injected into the company.

The Group accounts for Jiangsu Qunchuang, Mori-Union Microchannel and An Yi as an investment in associates using the equity method in the consolidated financial statements of the Group under applicable financial reporting standards.

Jiangsu Qunchuang, Mori-Union Microchannel and An Yi are unlisted corporate entities whose quoted market price is not available.

14 INTEREST IN ASSOCIATES *(Continued)*

Jiangsu Qunchuang, Mori-Union Microchannel and An Yi are still under start-up process. The total comprehensive losses of Jiangsu Qunchuang and An Yi in 2023 are RMB4,000 and RMB2,000, and the net assets of RMB119,987,000 and RMB19,998,000 are mainly paid up capital. The total comprehensive income of Mori-Union Microchannel in 2023 is RMB14,000 and the net asset of RMB1,012,000 is mainly paid up capital.

The total comprehensive losses of Jiangsu Qunchuang and Mori-Union Microchannel in 2022 are RMB9,000 and RMB2,000, and the net assets of RMB39,991,000 and RMB48,000 are mainly paid up capital.

15 INTEREST IN JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest		
Name of joint venture	**Forms of business structure**	**Place of incorporation and business**	**Particulars of issued and paid-up capital**	**Groups' effective interest**	**Held by the Company**	**Principal activity**
Morimatsu Dialog (Malaysia) SDN. BHD.	Incorporated	Malaysia	RM89,300,000	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.

The Group accounts for Morimatsu Dialog as an investment in a joint venture using the equity method in the consolidated financial statements of the Group under applicable financial reporting standards, as Morimatsu Dialog is under joint control.

Morimatsu Dialog, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

15 INTEREST IN JOINT VENTURE *(Continued)*

	Morimatsu Dialog (Malaysia) SDN. BHD.	
	2023	2022
	RMB'000	RMB'000
Gross amount of the joint venture		
Current assets	**162,719**	11,188
Non-current assets	**20,249**	2,925
Current liabilities	**(59,970)**	(1,358)
Non-current liabilities	**(10,025)**	—
Equity	**(112,973)**	(12,755)
Included in the above assets and liabilities:		
Cash and cash equivalents	**121,563**	10,093
Revenue	**22,210**	3,939
Loss from continuing operations	**15,463**	9,260
Total comprehensive loss	**15,463**	9,260
Included in the above profit:		
Depreciation and amortisation	**4,486**	282
Reconciled to the Group's interests in the joint venture		
Gross amount of net asset of the joint venture	**112,973**	12,755
Groups' effective interest	**51%**	51%
Group's share of net assets of the joint venture	**57,616**	6,505
Currency translation difference	**(188)**	(350)
Carrying amount in the consolidated financial statements	**57,428**	6,155

16 OTHER NON-CURRENT ASSETS

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

17 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials	**291,809**	585,982
Work in progress	**1,508,657**	1,627,746
	1,800,466	2,213,728

(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	
	2023	2022
	RMB'000	RMB'000
Carrying amount of inventories sold	**5,300,188**	4,688,814
Write-down of inventories	**5,096**	4,171
Reversal of write-down of inventories	**(726)**	(94)
Recognised in research and development expenses	**199,628**	144,488
	5,504,186	4,837,379

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value as a result of changes in contract prices.

18 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contract assets		
Arising from revenue recognised over time	**866,310**	830,927
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (Note 19)	**1,106,792**	682,065

18 CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(a) Contract assets *(Continued)*

Contract assets primarily relate to the Group's rights to consideration for work completed but not yet reached the milestones for billing at the reporting date. The Group's contracts include payment schedules which require stage payments over the delivery period once milestones are reached. Contract assets are transferred to trade receivables when the rights become unconditional.

(b) Contract liabilities

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contract liabilities		
Billings in advance of performance	**2,290,334**	2,890,048

Contract liabilities primarily relate to the consideration received from customers in advance, for which revenue is recognised based on the progress of the provision of related services.

	Contract liabilities
	RMB'000
Movement in contract liabilities	
At 1 January 2022	2,171,901
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,864,442)
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	2,582,589
At 31 December 2022 and 1 January 2023	**2,890,048**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(2,305,474)**
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	**1,705,760**
At 31 December 2023	**2,290,334**

19 TRADE AND OTHER RECEIVABLES

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

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

(a) Transfers of financial assets

The Group endorsed bank acceptance bills to its suppliers for settling trade payables of the same amounts on a full recourse basis. All bank acceptance bills had a maturity of less than one year from the issuance date. As at 31 December 2023, the Group did not have bill receivable (as at 31 December 2022: nil) pledged.

(i) Transferred financial assets that were derecognised in their entirety

The bills accepted by banks with high credit quality were derecognised when they were endorsed. In the opinion of the directors, the Group did not retain substantially all the risks and rewards of ownership of these bills, because the credit risk of the acceptance banks was very low and the Group had transferred out all interest risk of the bills upon endorsement. As the transferees had the practical ability to further endorse or discount the bills, control of these bills were transferred upon endorsement and thus they were derecognised. As at 31 December 2023, bills endorsed and derecognised, but yet reached maturity amounted to RMB203,861,000 (as at 31 December 2022: RMB507,021,000). This represents the Group's maximum exposure to loss should the acceptance banks fail to settle the bills on maturity date. However, non-settlement by those acceptance banks was considered unlikely.

(ii) Transferred financial assets that are not derecognised in their entirety

The other bank acceptance bills with a total carrying amount of RMB95,520,000 endorsed by the Group to its suppliers as at 31 December 2023 (as at 31 December 2022: RMB91,407,000) to settle trade payables of the same amounts, were not derecognised. In the opinion of the directors, the Group retained substantially all risks and rewards of these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated liabilities.

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Ageing analysis

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

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

Trade debtors and bills receivable are mainly due within 30–120 days from the date of invoice. Further details on the Group's credit policy and credit risk rising from trade debtors are set out in Note 29(a).

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deposits with banks	**558,975**	100,993
Cash at banks and on hand	**1,609,707**	1,269,366
	2,168,682	1,370,359

As at 31 December 2023, the Group did not have deposits (as at 31 December 2022: nil) pledged to banks.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Year ended 31 December **2023** **RMB'000**	2022 RMB'000
Profit before taxation		**984,334**	760,917
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	**116,263**	89,668
Depreciation of right-of-use assets	5(c)	**11,811**	8,775
Amortisation of intangible assets	5(c)	**17,367**	15,371
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets	4	**377**	1,103
Changes in fair value of financial assets and liabilities	4	**(249)**	292
Interest income	4	**(59,765)**	(15,259)
Net foreign exchange gains		**(291)**	(4,642)
Finance costs	5(a)	**13,291**	15,951
Share of results of joint venture	15	**7,886**	4,723
Share of results of associates	14	**(4)**	2
Equity-settled share-based payment expenses	5(b)	**91,688**	139,387
Net realised (gains)/loss on financial assets measured at fair value through profit or loss	4	**(10,164)**	14,840
Changes in working capital			
Increase in deferred tax assets	24	**(6,871)**	(7,120)
Increase in deferred tax liabilities	24	**22,235**	5,232
Decrease/(increase) in inventories	17	**413,262**	(984,095)
Increase in contract assets	18	**(35,383)**	(221,412)
Increase in trade and other receivables	19	**(340,507)**	(275,810)
Decrease in other non-current assets		**2,647**	1,544
(Decrease)/increase in contract liabilities	18	**(599,714)**	718,147
Increase in trade and other payables	21	**36,769**	587,363
Decrease in forward exchange contracts		**(1,090)**	(22,772)
Increase for deferred income	26	**1,930**	42,081
Increase in provisions	25	**5,454**	8,088
Net cash flows generated from operating activities		**671,276**	882,374

20 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 22)	Lease liabilities RMB'000 (Note 23)	Total RMB'000
At 1 January 2022 as restated	370,002	4,411	374,413
Changes from financing cash flows:			
Proceeds from bank loans	430,922	—	430,922
Capital element of lease rentals paid	—	(7,149)	(7,149)
Interest element of lease rentals paid	—	(538)	(538)
Repayment of bank loans	(363,481)	—	(363,481)
Interest paid	(12,705)	—	(12,705)
Total changes from financing cash flows	54,736	(7,687)	47,049
Exchange adjustment	4,082	—	4,082
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	25,901	25,901
Interest expenses (Note 5(a))	15,413	538	15,951
Total other changes	15,413	26,439	41,852
At 31 December 2022 and 1 January 2023	444,233	23,163	467,396

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank loans and other borrowings RMB'000 (Note 22)	**Lease liabilities** RMB'000 (Note 23)	**Total** RMB'000
Changes from financing cash flows:			
Proceeds from bank loans	102,999	—	102,999
Capital element of lease rentals paid	—	(6,401)	(6,401)
Interest element of lease rentals paid	—	(922)	(922)
Repayment of bank loans	(180,000)	—	(180,000)
Interest paid	(13,302)	—	(13,302)
Total changes from financing cash flows	(90,303)	(7,323)	(97,626)
Exchange adjustment	(1,216)	—	(1,216)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	2,488	2,488
Interest expenses (Note 5(a))	12,369	922	13,291
Total other changes	12,369	3,410	15,779
At 31 December 2023	365,083	19,250	384,333

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(d) Total cash outflow for leases

	2023 **RMB'000**	2022 RMB'000
Within operating cash flows	**30,470**	80,477
Within financing cash flows	**7,323**	7,687
	37,793	88,164

(e) Net cash outflow arising from the acquisition of a subsidiary

The recognised amounts of assets acquired and liabilities at the date of acquisition of the subsidiary comprise the following:

	2022 RMB'000
Cash and cash equivalents	7,120
Right-of-use assets	496
Trade and other receivables	68
Property, plant and equipment	67
Lease liabilities	(502)
Trade and other payables	(81)
Current taxation	(9)
Net assets acquired attributable to the Group	7,159
Consideration of acquisition of equity interest of Morimatsu Houston Corporation	8,187
Less: Total cash and cash equivalents acquired	7,120
Net cash outflow	1,067

There is no acquisition of a subsidiary in 2023.

21 TRADE AND OTHER PAYABLES

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

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 3 months	**761,296**	1,005,728
More than 3 months but less than 6 months	**162,953**	181,516
More than 6 months but less than 12 months	**173,368**	36,670
More than 1 year but less than 2 years	**151,868**	5,848
More than 2 years	**5,051**	3,782
	1,254,536	1,233,544

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

All trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

22 INTEREST-BEARING BORROWINGS

(a) The analysis of carrying amount of interest-bearing borrowings is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current		
— non-guaranteed bank loans	**185,524**	254,599
Non-current		
— non-guaranteed bank loans	**179,559**	189,634
Interest-bearing borrowings	**365,083**	444,233

(b) The bank loans and interest-bearing borrowings were repayable as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 1 year or on demand	**185,524**	254,599
After 1 year but within 2 years	**10,000**	83,074
After 2 years but within 5 years	**169,559**	106,560
	365,083	444,233

23 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	As at 31 December 2023		As at 31 December 2022	
	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	**4,312**	**5,067**	6,059	6,947
After 1 year but within 2 years	**3,336**	**3,925**	3,120	3,808
After 2 years but within 5 years	**6,035**	**7,167**	6,770	8,154
After 5 years	**5,567**	**5,975**	7,214	7,917
	19,250	**22,134**	23,163	26,826
Less: total future interest expenses		**(2,884)**		(3,663)
Present value of lease liabilities		**19,250**		23,163

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represent:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Provision for income tax for the year:		
Balance at 1 January	**68,467**	33,881
Provision for current income tax for the year	**126,422**	96,623
PRC income tax paid	**(104,800)**	(62,037)
Balance at 31 December	**90,089**	68,467

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the reporting period are as follows:

	Accruals and provisions RMB'000	Amortisation of Intangible assets RMB'000	Credit loss allowance RMB'000	Revaluation of financial assets and liabilities RMB'000	Depreciation allowances in excess of the related depreciation RMB'000	Provisions for warranties, onerous contract and litigation RMB'000	Provisions for inventories RMB'000	Deferred income RMB'000	Right-of-use assets RMB'000	Lease Liabilities RMB'000	Deductible tax losses RMB'000	Profit distribution RMB'000	Total RMB'000
Deferred tax assets/ (liabilities) arising from:													
At 1 January 2022	5,568	–	3,416	(104)	(17,422)	2,604	1,758	54	–	–	–	–	(4,126)
Credited/(charged) to profit or loss	5,051	–	15	148	(12,458)	1,340	(108)	7,900	–	–	–	–	1,888
At 31 December 2022 and 1 January 2023	10,619	–	3,431	44	(29,880)	3,944	1,650	7,954	–	–	–	–	(2,238)
Credited/(charged) to profit or loss	2,261	38	(1,062)	(80)	(12,481)	705	475	230	(3,794)	3,739	9,526	(14,921)	(15,364)
At 31 December 2023	12,880	38	2,369	(36)	(42,361)	4,649	2,125	8,184	(3,794)	3,739	9,526	(14,921)	(17,602)

(ii) Reconciliation to the consolidated statement of financial position

	2023 RMB'000	2022 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**13,991**	7,120
Net deferred tax liability recognised in the consolidated statement of financial position	**(31,593)**	(9,358)
	(17,602)	(2,238)

(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 RMB208,139,000 as at 31 December 2023 (as at 31 December 2022: RMB149,446,000) of the Company, Morimatsu China, Morimatsu Engineering and Mori-Biounion Technology as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity before they expire. The deductible tax losses expire within 5 years from the year when such losses were incurred under current tax law.

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(d) Deferred tax assets recognised

Morimatsu LifeSciences recognised the deferred tax assets in respect of cumulative tax losses of RMB38,105,000 as at 31 December 2023.

(e) Deferred tax liabilities not recognised

At 31 December 2023, temporary differences relating to undistributed profits of the subsidiaries amounted to RMB2,340,305,000 (as at 31 December 2022: RMB1,729,410,000). Deferred tax liabilities of RMB234,030,000 (as at 31 December 2022: RMB166,511,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits would not be distributed to the Company in the foreseeable future.

25 PROVISIONS

	Warranty provision RMB'000	Provision for onerous contract RMB'000	Total RMB'000
At 1 January 2023	**25,414**	**36**	**25,450**
Additional provisions made	**12,844**	**120**	**12,964**
Provisions utilised	**(7,508)**	**(2)**	**(7,510)**
At 31 December 2023	**30,750**	**154**	**30,904**

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within 18 months of the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the 18 months prior to the end of the each reporting period. The amount of provision takes into account the Group's recent experience and is only made where a warranty claim is probable.

26 DEFERRED INCOME

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Government grants	**44,364**	42,434

Government grants are related to assets those are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme (the "**Pre-IPO Share Option Scheme**") which was adopted on 1 July 2020 whereby the directors of the Company are authorised, at their discretion, to invite employees and directors of the Group, to take up options at HKD1.00 for each acceptance of the share offer. The vesting period of five years started after one year from the listing date (28 June 2021) and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

As at 1 July 2020, the Company has conditionally granted options to subscribe for an aggregate of 132,380,000 ordinary shares to 27 participants (including employees and directors of the Group) in consideration of an option price of HKD0.0001 for each acceptance of an offer of options under the Pre-IPO Share Option Scheme.

The Group recognised an expense of RMB60,982,000 in the year ended 31 December 2023 (31 December 2022: RMB69,952,000), which is by reference to the fair value of the options granted on the measurement date (also referred as "grant date" herein), and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

In 2023, options to subscribe for an aggregate of 7,956,419 ordinary shares were exercised (on and after 28 June 2022: 15,412,688).

The Group has a Restricted Share Units Scheme (the "**RSU Scheme**") which was adopted on 15 December 2021 whereby 29,459,700 restricted share units ("**RSU**") were granted to 149 qualified employees on 5 January 2022. The vesting period of three years started after one year from 5 January 2022 and are then exercisable within a period of three years. Each RSU gives the holder the right to subscribe for one ordinary share in the Group at the purchase price of HKD4.17.

The Group recognised an expense of RMB30,706,000 in the year ended 31 December 2023 (31 December 2022: RMB69,435,000), which is by reference to the fair value of the RSUs on the grant date, and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

9,406,800 RSUs were vested and exercised in the year ended 31 December 2023 (31 December 2022: nil).

(a) The terms and conditions of the grants are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Fair value at the grant date
At 1 July 2020	132,380,000	20% at any time after the first, second, third, fourth and fifth anniversary of the listing date	5.99 years	RMB2.29
At 5 January 2022	29,459,700	33% at any time after the first, second and third anniversary of the grant date	3.02 years	RMB4.06

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) The number of instruments are as follows:

	Year ended 31 December 2023		Year ended 31 December 2022	
	Pre-IPO Share Option Scheme	**RSU Scheme**	Pre-IPO Share Option Scheme	RSU Scheme
Outstanding at the beginning of the year	**114,137,312**	**28,220,400**	132,380,000	—
Granted during the year	**—**	**—**	—	29,459,700
Exercised during the year	**(7,956,419)**	**(9,406,800)**	(15,412,688)	—
Forfeited during the year	**—**	**(275,400)**	(2,830,000)	(1,239,300)
Outstanding at the end of the year	**106,180,893**	**18,538,200**	114,137,312	28,220,400
Exercisable at the end of the year	**28,450,893**	**—**	10,497,312	—

The outstanding options of Pre-IPO Share Option Scheme at 31 December 2023 had an exercise price of HKD0.0001 and a weighted average remaining contractual life of 2.49 years (2022: 3.49 years).

The outstanding RSUs of RSU Scheme at 31 December 2023 had an exercise price of HKD4.17 and a weighted average remaining contractual life of 1.02 years (2022: 2.02 years).

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Measurement of fair values

The fair value of services received in return for share options and RSUs granted is measured by reference to the fair value of share options and RSUs granted. The estimate of the fair value of the share options and RSUs granted is measured based on a binomial model. The contractual life of the share option and RSUs is used as an input into this model.

Fair value of share options and RSUs and assumptions

	Year ended 31 December 2023 and 2022	
	Pre-IPO Share Option Scheme	RSU Scheme
Fair value at measurement date	RMB2.29	RMB4.06
Exercise price	HK$0.0001	HK$4.17
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	51.55%	50.00%
Time to maturity (expressed as weighted average life used in the modelling under binomial option pricing model)	10.54 years	4.94 years
Expected dividends	0.00%	0.00%
Risk-free interest rate (based on Exchange Fund Notes)	2.83%	1.25%

Volatility was based on historical volatilities of the comparable companies in the same industry for a period of remaining contractual life, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options and RSUs were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option and RSU grants.

28 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's equity between the beginning and the end of the reporting period are set out below:

The Company	Share capital	Treasury stock	Capital reserve	Exchange reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 28(b)			Note 28(c)		
Balance at 1 January 2022	571,769	—	590,943	(3,151)	(168,892)	990,669
Changes in equity for the year ended 31 December 2022						
Profit for the year	—	—	—	—	43,568	43,568
Other comprehensive income for the year	—	—	—	615	—	615
Equity-settled share-based transactions (Note 27)	—	—	139,387	—	—	139,387
Issuance and repurchase of ordinary shares to the Company (Note 28(b)(ii))	36,581	(36,581)	—	—	—	—
Exercise of share option (Note 28(b)(iii))	35,307	1	(35,307)	—	—	1
Total change for the year	71,888	(36,580)	104,080	615	43,568	183,571
Balance at 31 December 2022 and 1 January 2023	643,657	(36,580)	695,023	(2,536)	(125,324)	1,174,240
Changes in equity for the year ended 31 December 2023						
Profit for the year	**—**	**—**	**—**	**—**	**200,712**	**200,712**
Allotment of shares (Note 28(b)(i))	**567,206**	**—**	**—**	**—**	**—**	**567,206**
Other comprehensive income for the year	**—**	**—**	**—**	**25,531**	**—**	**25,531**
Equity-settled share-based transactions (Note 27)	**—**	**—**	**91,688**	**—**	**—**	**91,688**
Issuance and repurchase of ordinary shares to the Company (Note 28(b)(ii))	**37,110**	**(37,110)**	**—**	**—**	**—**	**—**
Exercise of share option (Note 28(b)(iii))	**54,778**	**34,746**	**(55,467)**	**—**	**—**	**34,057**
Total change for the year	**659,094**	**(2,364)**	**36,221**	**25,531**	**200,712**	**919,194**
Balance at 31 December 2023	**1,302,751**	**(38,944)**	**731,244**	**22,995**	**75,388**	**2,093,434**

28 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2023		2022	
	No. of shares ('000)	**RMB'000**	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**1,073,796**	**643,657**	1,037,500	571,769
Allotment of shares (Note 28(b)(i))	**80,000**	**567,206**	—	—
Issuance and repurchase of ordinary shares to the Company (Note 28(b)(ii))	**36,296**	**37,110**	36,296	36,581
Exercise of share option and RSUs (Note 28(b)(iii))	**—**	**54,778**	—	35,307
At 31 December	**1,190,092**	**1,302,751**	1,073,796	643,657

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

(i) Allotment of shares under the subscription

On 4 January 2023, the Board approved that a total of 80,000,000 ordinary shares will be allotted and issued on 12 January 2023 as fully paid for cash at HKD8.30 per share. The net proceeds (after deducting all fees, costs and expenses incurred by the Company) amount to approximately RMB567,206,000.

(ii) Issuance and repurchase of ordinary shares to the Company

The Company issued and repurchased 26,476,000 ordinary shares at HKD0.6621 per share for exercise of Pre-IPO Share Option Scheme on 1 June 2023 (26,476,000 ordinary shares at HKD0.6621 on 2 June 2022).

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

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

28 CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(iii) Exercise of share option and RSU

The option to subscribe for an aggregate of 7,956,419 ordinary shares, which grant date fair value is RMB2.29, were exercised in 2023 at the exercise price of RMB1,000. RMB18,226,000 was transferred from the capital reserve to the share capital account in accordance with policy set out in Note 1(r)(ii).

The option to subscribe for an aggregate of 15,412,688 ordinary shares, which grant date fair value is RMB2.29, were exercised on and after 28 June 2022 at the exercise price of RMB1,000. RMB35,307,000 was transferred from the capital reserve to the share capital account in accordance with policy set out in Note 1(r)(ii).

9,327,555 RSUs were vested and exercised at the exercise price of RMB34,056,000 in 2023. RMB37,241,000 was transferred from the capital reserve to the share capital account in accordance with policy set out in Note 1(r)(ii).

No RSUs were vested and exercised in 2022.

(c) Exchange reserve

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

28 CAPITAL AND RESERVES *(Continued)*

(e) Dividends

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

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

(f) Capital reserve

The capital reserve comprises the following:

— Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised for business expansion or converted into 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) Other reserve

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

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities), less cash and cash equivalents. Adjusted capital comprises all components of equity.

During the years ended 31 December 2023 and 2022, 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.

28 CAPITAL AND RESERVES *(Continued)*

(h) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratios at 31 December 2023 and 2022 were as follows:

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Current liabilities:			
Interest-bearing borrowings	22	**185,524**	254,599
Lease liabilities	23	**4,312**	6,059
Non-current liabilities:			
Interest-bearing borrowings	22	**179,559**	189,634
Lease liabilities	23	**14,938**	17,104
Total debt		**384,333**	467,396
Less: Cash and cash equivalents	20(a)	**(2,168,682)**	(1,370,359)
Adjusted net debt		**(1,784,349)**	(902,963)
Total equity attributable to equity shareholders of the Company		**4,382,491**	2,815,730
Adjusted capital		**4,382,491**	2,815,730
Adjusted net debt-to-capital ratio		**no net debt**	no net debt

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements throughout the reporting period.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks, for which the Group considers to have low credit risk.

The Group also provide, through banking facilities, performance guarantees as required by its customers under normal course of business. Other than the above, the Group does not provide any other guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2023 and 2022, 8% and 1% of the total trade receivables and contract assets was due from the Group's largest customer, 22% and 18% of the total trade receivables and contract assets was due from the Group's five largest customers respectively.

Individual credit evaluations are performed on customers who have high credit risk. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are mainly due within 30 days from the date of invoice. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

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

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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets *(Continued)*

During the year ended 31 December 2023 and 2022, 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 2023 and 2022:

		31 December 2023	
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	**0.00%~0.01%**	**1,259,816**	**(45)**
0–3 months past due	**0.01%~0.03%**	**373,524**	**(68)**
4–6 months past due	**0.02%~0.05%**	**183,995**	**(71)**
7–12 months past due	**0.06%~0.19%**	**84,678**	**(84)**
1–2 year past due	**0.19%~100%**	**73,637**	**(2,280)**
		1,975,650	**(2,548)**
Customers with high credit risk	**100%**	**8,781**	**(8,781)**
		1,984,431	**(11,329)**

		31 December 2022	
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.03% ~ 0.04%	1,224,048	(406)
0–3 months past due	0.12% ~ 0.30%	136,480	(248)
4–6 months past due	0.22% ~ 0.88%	69,294	(220)
7–12 months past due	0.45% ~ 6.04%	82,435	(747)
1–2 year past due	1.56% ~ 100.00%	2,433	(77)
		1,514,690	(1,698)
Customers with high credit risk	100.00%	16,675	(16,675)
		1,531,365	(18,373)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets *(Continued)*

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Balance at 1 January	**18,373**	18,278
Amounts written off during the year	**(6,183)**	(5)
Impairment losses recognised during the year	**3,764**	947
Impairment losses reversed during the year	**(4,625)**	(847)
Balance at 31 December	**11,329**	18,373

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the decrease in the loss allowance:

— origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB169,000 (2022: RMB1,176,000);

— settlement of trade receivables originated from prior years resulted in a decrease in loss allowance of RMB5,563,000 (2022: RMB12,666,000);

— increase in days past due over resulted in an increase in loss allowance of RMB4,533,000 (2022: RMB11,590,000); and

— a write-off of trade receivables with a gross carrying amount of RMB10,808,000 (2022: RMB5,000) resulted in a decrease in loss allowance of RMB6,183,000 (2022: RMB5,000).

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

		As at 31 December 2023				
		Contractual undiscounted cash outflow				
	Note	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 5 years RMB'000**	**More than 5 year RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Interest-bearing borrowings	22	**195,748**	**193,843**	**—**	**389,591**	**365,083**
Trade and other payables	21	**1,669,850**	**—**	**—**	**1,669,850**	**1,669,850**
Lease liabilities	23	**5,067**	**11,092**	**5,975**	**22,134**	**19,250**
		1,870,665	**204,935**	**5,975**	**2,081,575**	**2,054,183**

		As at 31 December 2022				
		Contractual undiscounted cash outflow				
	Note	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 year RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing borrowings	22	267,413	205,403	—	472,816	444,233
Trade and other payables	21	1,633,543	—	—	1,633,543	1,633,543
Lease liabilities	23	6,947	11,962	7,917	26,826	23,163
		1,907,903	217,365	7,917	2,133,185	2,100,939

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

	As at 31 December 2023 Contractual undiscounted cash (outflow)/inflow		As at 31 December 2022 Contractual undiscounted cash (outflow)/inflow	
	Within 1 year or on demand RMB'000	**Total RMB'000**	Within 1 year or on demand RMB'000	Total RMB'000
Forward foreign exchange contracts:				
— outflow	**—**	**—**	(26,431)	(26,431)
— inflow	**—**	**—**	25,191	25,191
Monetary fund:				
— inflow	**59,149**	**59,149**	253,748	253,748

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from long-term borrowings. 31% 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 2023		As at 31 December 2022	
	Interest rate		Interest rate	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Interest-bearing borrowings	**3.88% ~ 4.40%**	**100,428**	3.73% ~ 3.93%	254,131
Lease liabilities	**0.00% – 4.90%**	**19,250**	0.00% – 4.90%	23,163
Total fixed rate borrowings		**119,678**		277,294
Variable rate borrowings				
Interest-bearing borrowings	**5-year LPR-0.57%**	**179,759**	5-year LPR-0.57%	106,678
	5.36% ~ 7.25%	**84,896**	2.51% – 6.81%	83,424
Total variable rate borrowings		**264,655**		190,102
Fixed rate borrowings as a percentage of total borrowings		**31%**		59%

(ii) Sensitivity analysis

At 31 December 2023, it is estimated that a general increase of 5% basis points in interest rates, with all other variables held constant, would have decreased the Group's profit after tax and retained profits by approximately RMB10,285,000 (2022: RMB7,483,000). A 5% decrease of interest rate would have had the equal but opposite effect on them to the amounts shown above.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen, Hong Kong dollar and Renminbi. The Group may also use forward foreign exchange contracts to manage currency risk. As at 31 December 2023, 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 2023				
	USD	**EUR**	**JPY**	**HKD**	**RMB**
Cash and cash equivalents	**1,214,806**	**117,895**	**24,401**	**34,346**	**88**
Trade and other receivables	**126,399**	**8,997**	**445**	**—**	**—**
Intercompany receivables/ (payables), net	**12,422**	**(141)**	**(2,049)**	**—**	**149,210**
Contract assets	**190,573**	**38,711**	**—**	**—**	**—**
Interest-bearing borrowings	**—**	**—**	**—**	**—**	**(100,429)**
Trade and other payables	**(24,514)**	**(21,271)**	**(3,319)**	**—**	**(389)**
Net balance sheet exposure	**1,519,686**	**144,191**	**19,478**	**34,346**	**48,480**

	Exposure to foreign currencies (expressed in RMB'000) As at 31 December 2022				
	USD	EUR	JPY	HKD	RMB
Cash and cash equivalents	370,618	155,236	65,064	38	14,894
Trade and other receivables	39,786	1,839	286	—	—
Intercompany receivables/ (payables), net	10,991	1,480	163,764	(108)	—
Contract assets	165,458	44,782	—	—	—
Interest-bearing borrowings	—	—	—	—	(254,131)
Trade and other payables	(20,634)	(11,061)	(2,879)	(3)	—
Net balance sheet exposure	566,219	192,276	226,235	(73)	(239,237)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	As at 31 December			
	2023		2022	
	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits
	%	**RMB'000**	%	RMB'000
USD	**2**	**25,731**	10	47,364
EUR	**6**	**7,220**	5	8,089
JYP	**5**	**803**	5	9,353
HKD	**2**	**515**	10	(4)
RMB	**5**	**2,024**	5	(9,928)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy *(Continued)*

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

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

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

The fair value of monetary fund in Level 2 is the estimated amount that the Group would receive or pay to transfer the financial assets at the end of the reporting period, taking into account current interest rates which is derived from Agricultural Bank of China.

Information about Level 3 fair value measurements

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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Information about Level 3 fair value measurements *(Continued)*

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2023 and 2022.

30 COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Authorised but not contracted for	**203,906**	25,061
— Commitments for the joint venture	**175,656**	—
Contracted for but not provided for	**106,728**	438,214
	310,634	463,275

(b) Operating lease commitments

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Operating lease commitments	**52,354**	5,284
— Commitments for related parties	**51,774**	—
Within 1 year	**52,354**	5,284

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the reporting period, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Morimatsu Group Co., Ltd. (Prior named as "**Morimatsu Holdings Co., Ltd.**")	Controlling Shareholder
Morimatsu Holdings Co., Ltd. (Prior named as "**Morimatsu Industry Company Limited**")	Parent company
Shanghai Morimatsu Chemical Equipment Co., Ltd.	Fellow subsidiary
Morimatsu Dialog (Malaysia) SDN. BHD.	Joint venture
Terumoto Matsuhisa	Members of director and key management personnel
Jungo Hirazawa	Members of director and key management personnel
Hirotaka Kawashima	Members of director and key management personnel
Koei Nishimatsu	Members of director and key management personnel
Wei Hua Tang	Members of director and key management personnel
Ye Sheng	Members of director and key management personnel

Note: The English translation of the above company names is for reference only. The official names of the companies established in the PRC are in Chinese.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8, is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Short-term employee benefits	**13,144**	12,070
Equity compensation benefits	**24,160**	28,597
	37,304	40,667

Total remuneration is included in "staff costs" (see Note 5(b)).

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Related party transactions

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Rental expense		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**54,508**	44,481
	54,508	44,481
Outsourcing service income		
Morimatsu Holdings Co., Ltd.	**580**	511
	580	511
Sales of Product		
Morimatsu Dialog (Malaysia) SDN. BHD.	**223**	—
	223	—
Purchase of Product		
Morimatsu Dialog (Malaysia) SDN. BHD.	**19,711**	—
	19,711	—
Purchase of Services		
Morimatsu Dialog (Malaysia) SDN. BHD.	**799**	—
	799	—
Acquisition treated as a combination of businesses under common control		
Morimatsu Holdings Co., Ltd.	**—**	8,187
	—	8,187

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Related party balances

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Amounts due to (trade):		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	**58,905**	23,662
Morimatsu Dialog (Malaysia) SDN. BHD.	**1,966**	—
	60,871	23,662
Trade payables	**60,792**	23,662
Contract liabilities	**79**	—
	60,871	23,662

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Amounts due from (trade):		
Morimatsu Holdings Co., Ltd.	**247**	280
Morimatsu Dialog (Malaysia) SDN. BHD.	**49,459**	—
	49,706	280
Trade debtors net of loss allowance	**247**	280
Prepayment	**49,459**	—
	49,706	280

(e) Guarantees provided to related parties

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Morimatsu Dialog (Malaysia) SDN. BHD.	**10,656**	10,656
	10,656	10,656

(f) Applicability of the Listing Rules relating to connected transactions

These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section titled "CONNECTED TRANSACTIONS" of the Directors' Report.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2023 RMB'000**	As at 31 December 2022 RMB'000
Non-current asset			
Investment in subsidiaries		**1,724,588**	1,200,559
Current assets			
Trade and other receivables	(a)	**270,217**	164,843
Contract assets		**520**	17,744
Cash and cash equivalents		**355,670**	172,026
Current liabilities			
Trade and other payables		**21,941**	35,648
Contract liabilities		**35,374**	7,729
Interest-bearing borrowings	(b)	**185,325**	254,481
Net current assets		**383,767**	56,755
Total assets less current liabilities		**2,108,355**	1,257,314
Non-current liabilities			
Interest-bearing borrowings	(b)	**—**	83,074
Deferred tax liabilities		**14,921**	—
Net assets		**2,093,434**	1,174,240
Capital and reserves			
Share capital		**1,302,751**	643,657
Reserves		**790,683**	530,583
Total equity		**2,093,434**	1,174,240

Approved and authorised for issue by the board of directors on 28 March 2024.

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

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

(a) Trade and other receivables

	Note	As at 31 December **2023** RMB'000	2022 RMB'000
Amounts due from subsidiaries	(i)	**218,635**	164,794
Amounts due from joint venture		**49,459**	—
Other debtors		**2,123**	49
		270,217	164,843

(i) As at 31 December 2023, RMB149,210,000 and RMB69,425,000 were mainly due from Morimatsu China, Morimatsu LifeSciences respectively, which was eliminated in the consolidated financial statements.

(b) Interest-bearing borrowings

	As at 31 December **2023** RMB'000	2022 RMB'000
Current		
— guaranteed bank loans	**—**	80,605
— non-guaranteed bank loans	**185,325**	173,876
Non-current		
— non-guaranteed bank loans	**—**	83,074
Interest-bearing borrowings	**185,325**	337,555

As at 31 December 2023, bank loans of RMB29,842,000 from Mizuho Bank and RMB69,631,000 from Sumitomo Mitsui Banking Corporation bear interest at 4.40% and 4.05% respectively per annum. The accrual of interest is RMB956,000. The bank loans and interest accrual are repayable on 30 August 2024 and 30 August 2024 respectively.

As at 31 December 2023, bank loans of RMB84,277,000 (as at 31 December 2022: RMB83,074,000) from Sumitomo Mitsui Banking Corporation bear variable interest rate from 5.36% to 7.25% during the year of 2023 (during the year of 2022: 2.51% to 6.81%). The accrual of interest is RMB619,000 and will be repaid within three months. The bank loans are repayable on 25 November 2024.

As at 31 December 2022, bank loans of RMB80,605,000 from Mizuho Bank and RMB171,286,000 from Sumitomo Mitsui Banking Corporation bear interest at 3.93% and 3.88% respectively per annum. The accrual of interest is RMB2,240,000. The bank loans and interest accrual are repaid on 31 August 2023 and 28 February 2023 respectively.

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Obtain the control of joint venture

Pursuant to the Supplemental Agreement to the Joint Venture Agreement dated 1 January 2024, the two investors of Morimatsu Dialog (Malaysia) SDN. BHD. amended the terms of the joint venture agreement dated 27 August 2021. Since 1 January 2024, the Company has directly retained 51% of the shares and has obtained control of the joint venture to enhance synergies in the management of the Group, while another investor has only retained a protective right.

(b) Acquisition of a subsidiary

On 27 and 28 February 2024, the Group entered into an equity transfer agreement with three independent third parties, pursuant to which, the Group agreed to acquire Shandong Keda Chemical Engineering Design Co., Ltd. (the "**Shandong Keda**"). Upon the completion of the registration of change for the equity transfer of the Shandong Keda by both parties, the Group will hold 100% of the shares in Shandong Keda. Shandong Keda is mainly engaged in structural design, special equipment design and engineering cost consultancy. From then on, the Group indirectly owns 100% of the shares and has control over Shandong Keda.

(c) Declaration of dividends

On 28 March 2024, the Board of Directors proposed to declare dividend for the year ended 31 December 2023 of HKD0.1 per ordinary share. Once upon the approval of the shareholders at the Annual General Meeting to be held on 18 June 2024, the dividend will be payable around 19 July 2024. Further details are disclosed in note 28(e).

(d) Subscription of preferred shares of the company

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

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING ON OR AFTER 31 DECEMBER 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 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 HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("**2020 amendments**")*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("**2022 amendments**")*	1 January 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Amendments to HKAS 7, *Statement of cash flows and HKFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements*	1 January 2024
Amendments to HKAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	1 January 2025

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following:

Amendments to HKAS 1, Presentation of financial statements (2020 and 2022 amendments)

The 2020 and 2022 amendments impact the classification of a liability as current or non-current, and are to be applied retrospectively as a package.

The 2020 amendments primarily clarify the classification of a liability that can be settled in its own equity instruments. If the terms of a liability could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments and that conversion option is accounted for as an equity instrument, these terms do not affect the classification of the liability as current or non-current. Otherwise, the transfer of equity instruments would constitute settlement of the liability and impact classification.

The 2022 amendments specify that conditions with which an entity must comply after the reporting date do not affect the classification of a liability as current or non-current. However, the entity is required to disclose information about non-current liabilities subject to such conditions.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2023, the directors consider the immediate parent of the Group to be Morimatsu Holdings Co., Ltd. and ultimate controlling party of the Group to be Morimatsu Group Co., Ltd., which are incorporated in Japan. These entities do not produce financial statements available for public use.

"13th Five-Year Plan"	refers to the thirteenth five-year plan outline for the development of China's national economy and society. It is compiled in accordance with the "Proposal of the Central Committee of the Communist Party of China on Formulating the Thirteenth Five-Year Plan on National Economic and Social Development", primarily elucidating the grand blueprint for China's economic and social development from 2016 to 2020
"14th Five-Year Plan"	refers to the "Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035". The 14th Five-Year Plan primarily elaborates on the grand blueprint for China's economic and social development from 2021 to 2025
"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"	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
"Brazil"	refers to the Federative Republic of Brazil
"Capital Expenditure Projects"	the large-scale capital expenditure projects of enterprises in the downstream industry, mainly used for the construction of new process units or the purchase of large-scale core industrial equipment and high-value industrial solutions
"CDMO"	Contract development and manufacturing organization
"CG Code"	refers to the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"Clean Chemical Technology"	refers to practices in chemical reactions that minimise environmental impact as much as possible, including production, transportation, use and disposal of all the stages. This technology helps reduce chemical pollution, decrease energy consumption and increase production efficiency
"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, Morimatsu Holdings and Morimatsu Group
"CXO"	Contract X Organization, is a pharmaceutical outsourcing service, mainly including organizations that serve the three major links of research and development, production and sales in the pharmaceutical industry

"Deed of Non-Competition"	the deed of non-competition undertaking dated 10 February 2021 entered into by our Controlling Shareholders in favour of the Company, further information of which is set forth in the section headed "Directors' Report" in this annual report
"Digital Operation and Maintenance"	means to apply the Internet of Things (IoT) technology to enable local or remote management of the operation, maintenance of equipment and buildings via a digital platform. This significantly improves management efficiency and level, and really achieves the purposes of cost reduction and efficiency improvement
"Dual Carbon Target"	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 affects the quality of electronic products, but has significant effect on the industrialisation of the microelectronic manufacturing technology. The development of the electronic industry requires synchronisation of the electronic chemical industry. Therefore, electronic chemical has become one of the key materials prioritised by all countries around the world in order to develop the electronic industry
"EU"	refers to the European Union
"EUR" or "Euro"	refers to euro, the lawful currency of the Eurozone
"Germany"	refers to the Federal Republic of Germany
"Global Offering"	the offer of the Shares for subscription as described in the section headed "Structure of the Global Offering" in the Prospectus
"HKD" or "HK$"	refers to Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	refers to the Hong Kong Special Administrative Region of the PRC
"IFRS(s)"	refers to International Financial Reporting Standards
"India"	refers to the Republic of India
"Indonesia"	refers to the Republic of Indonesia
"Installed Capacity"	refers to the number of generator sets installed or the generating capacity of the generator sets

"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
"Italy"	refers to the Republic of Italy
"Japan"	Japan
"Jinliang Technology"	Shanghai Jinliang Technology Service Co., Ltd. (上海金亮科技服務有限公司), a company established with limited liability in the PRC on 27 December 2021, and a general partner of Jinwen Consultation
"Jinwen Consultation"	Shanghai Jinwen Enterprise Consultation Management Partnership (Limited Partnership) (上海金聞企業諮詢管理合夥企業(有限合夥)), a partnership established with limited liability in the PRC on 10 March 2022, and one of the shareholders of Morimatsu Biotechnology
"JPY"	refers to Japanese Yen, the lawful currency of Japan
"Lifesciences Singapore"	Morimatsu Lifesciences (Singapore) Pte. Ltd., a private company incorporated in Singapore with limited liability on 22 December 2023 and an indirect wholly-owned subsidiary of the Company
"Listing" or "IPO"	refers to the listing of the Shares on the Main Board of the Stock Exchange on 28 June 2021
"Listing Date"	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commenced, which is 28 June 2021
"Listing Rules"	refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Lithium Bis (fluorosulfonyl) Amide"	is used to prepare inorganic salts and organic ionic liquids containing bis (fluorosulfonyl) amide ions, which can effectively reduce the viscosity and improve the conductivity of electrolytes
"Lithium Hexafluorophosphate"	refers to an important electrolyte (the four major components of a power cell: positive electrode material, negative electrode material, electrolyte, and separator) that conducts ions and electrons between the positive and negative electrodes
"Main Board"	refers to Main Board of the Stock Exchange
"Malaysia"	refers to the Federation of Malaysia

"Mechatronics"	refers to mechanical electronic engineering, which is an integrated technology of mechanics and electronics. It represents the optimal synergy of precision mechanical engineering, electronic control and systems in the design of products and manufacturing systems. Mechatronics achieves higher efficiency and better performance by combining technologies from multiple fields, including mechanical engineering, electronic engineering, control engineering and computer science
"Model Code"	refers to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 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
"Monoclonal Antibodies"	refer to antibodies made by identical immune cells that are clones of a unique parent cell, featuring monovalent affinity. The therapeutic applications of monoclonal antibodies operate through various mechanisms, such as blocking the function of target molecules, inducing apoptosis in cells (that express the target molecule), or modulating signaling pathways. Currently, they are widely used in the treatment of cancer and autoimmune diseases
"Mori-Biounion Technology"	Shanghai Mori-Biounion Technology Co., Ltd. (上海森眾生物技術有限公司), a company established with limited liability in the PRC on 24 May 2022 and an indirect non-wholly owned subsidiary of the Company
"Morimatsu Biotechnology"	Shanghai Morimatsu Biotechnology Co. Ltd. (上海森松生物科技有限公司), a company established in the PRC on 17 January 2022 with limited liability and an indirect non-wholly owned subsidiary of the Company
"Morimatsu Chemical"	Shanghai Morimatsu Chemical Equipment Co., Ltd. (上海森松化工成套裝備有限公司), a company established in the PRC with limited liability on 17 November 2004, which is owned by Morimatsu Seiki and 株式會社森松総合研究所 as to 80.85% and 19.15%, respectively
"Morimatsu China"	Morimatsu (China) Investment Co., Ltd (森松(中國)投資有限公司), a company established in the PRC with limited liability on 7 June 2010 and a direct wholly-owned subsidiary of the Company
"Morimatsu Dialog"	Morimatsu Dialog (Malaysia) Sdn. Bhd., a private company established in Malaysia with limited liability on 14 September 2021, which is an indirect non-wholly-owned subsidiary of the Company
"Morimatsu Engineering Technology"	Shanghai Morimatsu Engineering Technology Co. Ltd. (上海森松工程技術有限公司), a company established in the PRC on 19 November 2021 with limited liability and an indirect wholly-owned subsidiary of the Company

"Morimatsu Group (森松グループ株式會社)"	Morimatsu Group Co., Ltd., formerly known as Morimatsu Holdings Co., Ltd. (森松ホールディングス株式會社), a limited liability company incorporated in Japan on 1 September 2015, which is controlled by Mr. Matsuhisa Terumoto by holding 100% of its voting shares, and one of our Controlling Shareholders
"Morimatsu Heavy Industry"	Morimatsu (Jiangsu) Heavy Industry Co., Ltd. (森松(江蘇)重工有限公司), a company established in the PRC on 13 May 2008 with limited liability and an indirect wholly-owned subsidiary of the Company
"Morimatsu Holdings"	Morimatsu Holdings Co., Ltd. (森松ホールディングス株式會社), formerly known as Morimatsu Industry Co., Ltd. (森松工業株式會社), a company incorporated in Japan with limited liability on 2 May 1964, which is controlled by Morimatsu Group, and one of our Controlling Shareholders
"Morimatsu Houston"	Morimatsu Houston Corporation, a company incorporated in the United States with limited liability on 17 January 2008, and an indirect wholly-owned subsidiary of the Company
"Morimatsu LifeSciences"	Morimatsu (Suzhou) LifeSciences Company Limited (森松(蘇州)生命科技有限公司), a company established in the PRC with limited liability on 26 September 2021 and an indirect wholly-owned subsidiary of the Company
"Morimatsu Pharmaceutical Equipment"	Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd (上海森松製藥設備工程有限公司) (formerly known as Shanghai Morimatsu Pharmaceutical Equipment Company Limited (上海森松製藥設備有限公司)), a company established in the PRC with limited liability on 29 November 2001 and an indirect wholly-owned subsidiary of the Company
"Morimatsu Pressure Vessel"	Shanghai Morimatsu Pressure Vessel Co., Ltd (上海森松壓力容器有限公司), now known as Shanghai Nagamori Machinery Co., Ltd. (上海森永工程設備有限公司), a company established in the PRC with limited liability on 14 October 1990, which is currently owned as to 55.76% by Mr. Wang Guobin (王國斌), 25.30% by Shanghai Haitai Plastic Machinery Co., Ltd. (上海海太塑料機械有限公司), 14.94% by Shanghai Saima Enterprise Consulting Management Partnership (Limited Partnership) (上海賽瑪企業諮詢管理合夥企業(有限合夥)) and 4.00% by Wang Tianxin (王天馨), being Independent Third Parties, respectively
"Morimatsu Seiki"	Shanghai Morimatsu Seiki Co., Ltd. (上海森松精機有限公司), a company established in the PRC with limited liability on 24 September 2019, and wholly-owned by Morimatsu Holdings
"Morimatsu Singapore"	Morimatsu (Singapore) Pte. Ltd., a private company incorporated in Singapore with limited liability on 17 October 2023 and a direct wholly-owned subsidiary of the Company
"Morimatsu T&S"	Morimatsu Technology and Service Company Limited (森松T&S株式會社), a company incorporated in Japan with limited liability on 27 November 2023 and an indirect wholly-owned subsidiary of the Company

"Nomination Committee"	refers to the Nomination Committee of the Board
"Pharmadule Singapore"	Morimatsu Pharmadule (Singapore) Pte. Ltd., a private company established in Singapore with limited liability on 16 January 2023, which is an indirect wholly-owned subsidiary of the Company
"Pharmadule Sweden"	Pharmadule Morimatsu AB (formerly known as "Goldcup 6476 AB"), a company incorporated in Sweden with limited liability on 3 March 2011 and an indirect wholly-owned subsidiary of the Company
"Pharmadule T&S"	Pharmadule T&S Co., Ltd. (ﾌｧｰﾏｼﾞｭｰﾙT&S株式會社) (formerly known as Shanghai Morimatsu Co., Ltd (上海森松株式會社) and Morimatsu Industry Bunkatsu Junbi Co., Ltd. (森松工業分割準備株式會社)), a company incorporated in Japan with limited liability on 31 January 2014 and an indirect wholly-owned subsidiary of the Company
"Photoresist"	refers to resist-resistant thin-film materials whose solubility changes through irradiation or radiation of ultraviolet light, electron beams, ion beams, and X-rays, etc.
"Post-IPO Share Option Scheme"	refers to the post-IPO share option scheme adopted by the Company and became effective on 10 February 2021, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — Post-IPO Share Option Scheme" in Appendix V to the Prospectus
"Power Battery"	refers to the power battery refers to the ternary polymer lithium battery used in new energy vehicles, which is a kind of lithium battery with three elements: nickel salt, cobalt salt, and manganese salt/lithium aluminate as its cathode materials, graphite as its anode material, and mainly lithium hexafluorophosphate as its electrolyte
"PRC" or "China"	refers to the People's Republic of China which, for the purpose of this annual report, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Pre-IPO Share Option Scheme"	refers to the pre-IPO share option scheme adopted by the Company and became effective on 1 July 2020, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — Pre-IPO Share Option Scheme" in Appendix V to the Prospectus
"Prospectus"	refers to the prospectus issued by the Company dated 15 June 2021
"Recombinant Human Serum Albumin"	refers to a type of artificial blood product that can increase blood volume and maintain plasma colloid osmotic pressure within the human body. It plays a role in transportation and detoxification during the process of nutrient supply to the human body
"Recombinant Protein"	refers to a protein obtained using recombinant Deoxyribonucleic acid (DNA) or recombinant ribonucleic acid (RNA) technology, which intercepts and clones the most active gene fragment in the protein, and then introduce it into the recipient cells for continuous reproduction, and then separate and purify the expressed protein to obtain the recombinant protein

"Remuneration Committee"	refers to the Remuneration Committee of the Board
"Renminbi" or "RMB"	refers to Renminbi, the lawful currency of the PRC
"Reporting Period"	refers to the period of one year from 1 January 2023 to 31 December 2023
"RM"	refers to Ringgit, the lawful currency of Malaysia
"RSU Scheme"	refers to the restricted share unit scheme adopted by the Company on 15 December 2021
"Russia"	refers to the Russian Federation
"SEK"	refers to Swedish Krona, the lawful currency of Sweden
"Separator"	located between the positive electrode and the negative electrode of a power battery with the main function of separating the positive and negative active materials to prevent the two electrodes from getting short-circuited caused by contact
"SFO"	refers to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGD"	the legal currency of Singapore, the Singapore dollar
"Shareholders"	refers to holders of the Shares
"Shares"	refers to ordinary shares of the Company
"Singapore"	refers to the Republic of Singapore
"Single-use Bioreactor System"	refers to a reactor and accompanying equipment designed for the controlled growth and cultivation of animal cells, bacteria or yeast, including components for storage, control and transfer. It is used in the pharmaceutical production process for the manufacturing of antibodies, vaccines, insulin or other drugs. This technology is widely applied in industries such as biopharmaceuticals, daily chemicals and sustainable food manufacturing
"Small Molecule Protein(s)"	refers to a type of proteins composed of small molecules, primarily made up of amino acids, which are the basic building blocks of proteins
"Stock Exchange"	refers to The Stock Exchange of Hong Kong Limited
"Sweden"	refers to the Kingdom of Sweden

"Switzerland"	refers to Swiss Confederation
"Target Material(s)"	refers to substances of high purity and density used in the manufacture of various semiconductor components. They are typically disc-shaped, with diameters ranging from 1 inch to 12 inches, and include metal targets, oxide targets and nitride targets. These materials are used in the production of components such as transistors, light-emitting diodes, solar cells, panel displays and semiconductor lasers
"Ternary Anode Material"	means a power battery anode material consisting of ternary materials (typically NiCuMn or NiCoAl)
"U.S." or "USA"	refers to the United States of America
"UK"	refers to the United Kingdom of Great Britain and Northern Ireland
"USD" or "US$"	refers to United States dollars, the lawful currency of the United States
"Wafer(s)"	refers to the silicon wafers used in the fabrication of silicon semiconductor circuits and made from silicon as the raw material. High-purity polycrystalline silicon is melted and doped into a silicon crystal seed, then slowly pulled out to form a cylindrical single-crystal silicon. After the silicon ingot is ground, polished and sliced, it forms silicon wafers, also known as wafers
"%"	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.