



MORIMATSU
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Morimatsu International Holdings Company Limited

森松國際控股有限公司

(Incorporated in Hong Kong with limited liability)

Stock code : 2155

2022
Interim Report





Contents

Corporate Information	2
Definitions	4
Management Discussion and Analysis	10
Supplemental Information	40
Condensed Consolidated Financial Information	44
Notes to Unaudited Interim Financial Report	51





Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Matsuhisa Terumoto (Chairman)

Independent Non-executive Directors

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

COMPANY'S WEBSITE ADDRESS

www.morimatsu-online.com

JOINT COMPANY SECRETARIES

Mr. Lee Kenneth Hoi Nap
Ms. Lau Wai Yee

AUTHORISED REPRESENTATIVES

Mr. Nishimatsu Koei
Ms. Lau Wai Yee

AUDIT COMMITTEE

Ms. Chan Yuen Sau Kelly (Chairman)
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

LEGAL ADVISER AS TO PRC LAW

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

AUDITORS

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

STOCK CODE

2155



Definitions

“Adhesive”	is a polymer compound that is an inactive component of power cell electrodes and is one of the most important materials that must be used in the preparation of power cell electrodes
“Audit Committee”	refers to the Audit Committee under the board of directors
“Biopharmaceuticals”	refers to products that are made from organisms, biological tissues, cells, body fluids, etc. by using the principles, approaches and research results of microbiology, chemistry, biochemistry, medicine and other subjects
“Bioreactor/Fermenter System”	The devices that grow animal cells, bacteria or yeast, etc. under controlled conditions, and are used to produce antibodies, vaccines, insulin or other drugs in the pharmaceutical manufacturing process
“Board”	refers to the board of directors of the Company
“CG Code”	refers to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CIP”	stands for Clean in Place, i.e. online cleaning, also known as in-situ cleaning, which means that the equipment can be cleaned without disassembling the equipment and under closed conditions
“Company”	refers to Morimatsu International Holdings Company Limited, a Hong Kong listed company listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of this interim report, refers to Mr. Matsuhisa Terumoto, Mr. Matsuhisa Hiroyuki, Morimatsu Holdings and Morimatsu Group
“Culture Medium”	refers to the nutrient matrix prepared from different substances for cell growth and reproduction, which simulates the growth environment of cells in vivo, so that cells can continue to grow and reproduce in vitro, and maintain their structure and function
“Digital Operation and Maintenance”	means to apply the IoT (Internet of Things) technology to enable local or remote management of the operation, maintenance of equipment and buildings via a digital platform. This significantly improves management efficiency and level, and really achieves the purposes of cost reduction and efficiency improvement
“Director(s)”	refers to the director(s) of the Company
“Double Carbon Commitment”	the “double carbon” target commitment announced by the Chinese government in September 2020, i.e. striving to bring carbon dioxide emissions to peak by 2030, and achieve carbon neutrality by 2060

“Electrolyte”	means the carrier for ion transport in a battery. It is generally composed of lithium salts and organic solvents, and as a conductor of ions between the positive and negative electrodes of a lithium battery. The electrolyte is generally composed of high purity organic solvents, electrolytic lithium salts, necessary additives and other raw materials, and is prepared under certain conditions and in a certain ratio
“Electronic Chemicals”	refers to the fine chemical products supporting the electronic industry, one of the important supporting materials for the electronic industry. The quality of electronic chemicals not only directly affect the quality of electronic products, but have significant effect on the industrialisation of the microelectronic manufacturing technology. The development of the electronic industry requires synchronisation of the electronic chemical industry. Therefore, electronic chemical has become one of the key materials prioritised by all countries around the world in order to develop the electronic industry
“EUR” or “Euro”	refers to euro, the lawful currency of the Eurozone
“GDP”	Gross Domestic Product refers to the value of all end products and services created in the economy of a country or region during a certain period (a quarter or a year), which is generally accepted as the best indicator that measures a country’s economic state
“Group”	refers to the Company and its subsidiaries
“High Purity Reagents”	refers to semiconductor grade electrochemical reagents. It can be divided into five categories, namely G1, G2, G3, G4 and G5, according to the ultra-clean high purity reagents SEMI international standard grade
“HKD” or “HK\$”	refers to Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	refers to the Hong Kong Special Administrative Region of the PRC
“IFRS”	refers to International Financial Reporting Standards
“India”	the Republic of India
“Italy”	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



Definitions

“JPY”	refers to Japanese Yen, the lawful currency of Japan
“Listing” or “IPO”	refers to the listing of the Shares on the Main Board of the Stock Exchange on 28 June 2021
“Listing Date”	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commenced, which is 28 June 2021
“Listing Rules”	refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Lithium Bis (fluorosulfonyl) amide”	is used to prepare inorganic salts and organic ionic liquids containing bis (fluorosulfonyl) amide ions, which can effectively reduce the viscosity and improve the conductivity of electrolytes
“Lithium Hexafluorophosphate”	refers to an important electrolyte (the four major components of a power cell: positive electrode material, negative electrode material, electrolyte, and diaphragm) that conducts ions and electrons between the positive and negative electrodes
“Main Board”	refers to Main Board of the Stock Exchange
“Model Code”	refers to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Module/Modular”	the design idea and installation method for preassembling of key equipment, other components, pipe structures, electrical instruments, etc. in a manufacturing plant, so as to minimize the work quantity on project site, and reduce cost of on-site jobs and on-site failures
“Mori-Biounion Technology”	Shanghai Mori-Biounion Technology Co., Ltd. (上海森眾生物技術有限公司), a company established with limited liability in the PRC on 24 May 2022 and an indirect non-wholly owned subsidiary of the Company
“Morimatsu Biotechnology”	Shanghai Morimatsu Biotechnology Co. Ltd. (上海森松生物科技有限公司), a company established in the PRC on 17 January 2022 with limited liability and an indirect non-wholly owned subsidiary of the Company
“Morimatsu Group (森松グループ株式会社)”	Morimatsu Group Co., Ltd., formerly known as Morimatsu Holdings Co., Ltd. (森松ホールディングス株式会社), a limited liability company incorporated in Japan on 1 September 2015, which is controlled by Mr. Matsuhisa Terumoto and Mr. Matsuhisa Hiroyuki by holding 80% and 20% of its voting shares, respectively, and one of our Controlling Shareholders
“Morimatsu 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会社), formerly known as Morimatsu Industry Co., Ltd. (森松工業株式会社), a company incorporated in Japan with limited liability on 2 May 1964, which is controlled by Morimatsu Group, and one of our Controlling Shareholders
“Morimatsu Houston”	Morimatsu Houston Corporation, a company incorporated in the United States with limited liability on 17 January 2008, and acquired by Pharmadule Sweden on 28 February 2022, and an indirect wholly-owned subsidiary of the Company
“Morimatsu LifeSciences”	Morimatsu (Suzhou) LifeSciences Company Limited (森松（蘇州）生命科技有限公司), a company established in the PRC with limited liability on 26 September 2021 and a direct wholly-owned subsidiary of the Company
“Morimatsu Pharmaceutical Equipment”	Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd (上海森松製藥設備工程有限公司) (formerly known as Shanghai Morimatsu Pharmaceutical Equipment Company Limited (上海森松製藥設備有限公司)), a company established in the PRC with limited liability on 29 November 2001 and an indirect wholly-owned subsidiary of the Company
“Morocco”	The Kingdom of Morocco
“mRNA Vaccine”	refers to a nucleic acid preparation in which mRNA, representing target antigen protein, is introduced into the body’s cells through a specific delivery system to stimulate the body’s specific immunological response by expressing the target protein in vivo, thereby providing the body with immune protection
“NMP (N-Methylpyrrolidone)”	a colorless and transparent liquid, and one of the most commonly used auxiliary materials for lithium batteries like adhesive, with the main function of dissolving the positive and negative active materials
“Nomination Committee”	refers to the Nomination Committee of the Board
“Pharmadule Sweden”	Pharmadule Morimatsu AB (formerly known as “Goldcup 6476 AB”), a company incorporated in Sweden with limited liability on 3 March 2011 and a direct wholly-owned subsidiary of our Company
“Post-IPO Share Option Scheme”	refers to the post-IPO share option scheme adopted by the Company and became effective on 10 February 2021, the principal terms of which are summarized in “Statutory and General Information — D. Other Information — Post-IPO Share Option Scheme” in Appendix V to the Prospectus
“Power Battery”	refers to the power battery refers to the ternary polymer lithium battery used in new energy vehicles, which is a kind of lithium battery with three elements: nickel salt, cobalt salt, and manganese salt/lithium aluminate as its cathode materials, graphite as its anode material, and mainly lithium hexafluorophosphate as its electrolyte
“PPT Grade”	a unit of concentration, equivalent to 10 to the negative 12th power



Definitions

“PRC” or “China”	refers to the People’s Republic of China which, for the purpose of this interim report, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Pre-IPO Share Option Scheme”	refers to the pre-IPO share option scheme adopted by the Company and became effective on 1 July 2020, the principal terms of which are summarized in “Statutory and General Information — D. Other Information — Pre-IPO Share Option Scheme” in Appendix V to the Prospectus
“Prospectus”	refers to the prospectus issued by the Company dated 15 June 2021
“Recombinant Protein Vaccine”	a vaccine prepared by constructing the target antigen gene of the virus on an expression vector, transforming the constructed expression protein vector into bacteria, yeast or mammalian/insect cells, and expressing and purifying the antigen protein in large quantities under certain induction conditions
“Remuneration Committee”	refers to the Remuneration Committee of the Board
“Renminbi” or “RMB”	refers to Renminbi, the lawful currency of the PRC
“Reporting Period/Interim Period”	refers to the period of six months from 1 January 2022 to 30 June 2022
“REPowerEU”	the European Commission’s plan presented on 18 May 2022 to make Europe independent from Russian fossil fuels well before 2030, in light of Russia’s invasion of Ukraine
“RSU Scheme”	refers to the restricted share unit scheme adopted by the Company on 15 December 2021
“Russia”	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
“Shareholders”	refers to holders of the Shares
“Shares”	refers to ordinary shares of the Company
“Sina Finance”	a financial platform founded in August 1999

“Single-Use Bioreactor”	also known as disposable bioreactor, a bioreactor that uses a disposable bag instead of a culture vessel made of stainless steel or glass
“Stock Exchange”	refers to The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Ternary Anode Material”	means a power battery anode material consisting of ternary materials (typically NiCuMn or NiCoAl)
“Ternary Precursor”	means nickel and cobalt (aluminum) ternary complex hydroxide, the front-end material of the cathode material in a power battery, which plays a decisive role in the performance of the cathode material
“United States” or “US”	the United States of America
“USD” or “US\$”	refers to United States dollars, the lawful currency of the United States
“VC”	stands for vinylene carbonate, which is an organic substance with the properties of colorless and transparent liquid. It is a new type of organic film-forming additive and overcharge protection additive for lithium ion batteries., and can also be used as a monomer for the preparation of polycarbonate
“%”	per cent

In this report, unless the context otherwise requires, the terms “associate(s)” and “subsidiary(ies)” have the meanings ascribed to them in the Listing Rules.



Management Discussion and Analysis

DEVELOPMENT VISION AND ORGANIZATIONAL VALUES

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

The Group serves the value needs of customers and provides services covering the full life cycle based on digital technology, including multiple elements such as joint research and development, feasibility studies, project consulting, optimization of existing process routes, design of operation and maintenance platforms, tracking and improvement plans, etc., thereby helping customers to continuously achieve technological innovation and product iteration, and jointly developing sustainable competitive advantages in their industries.

PRINCIPAL BUSINESSES AND SECTORS

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

During the Reporting Period, the Group's revenue and new orders were mainly derived from the following industries/fields: 1) pharmaceuticals and biopharmaceuticals; 2) raw materials of power battery; 3) new chemical materials; and 4) electronic chemicals, among which, the two most active fields are the raw materials of power battery and biopharmaceuticals. Meanwhile, benefiting from the gradual recovery of the world economy from the adverse impact brought by the novel coronavirus disease 2019 ("COVID-19") pandemic, the Group also achieved significant growth in the amount of new orders in the fields of oil and gas and daily chemicals.

The Group's business in the field of raw materials of power battery mainly focuses on the production of core reactors, process modules, process production lines and modular production facilities for ternary precursor, ternary cathode materials (including crude ore metal materials such as nickel and cobalt), electrolyte configuration, core electrolyte additives (lithium hexafluorophosphate, lithium difluorosulfonimide, and VC (vinylene carbonate), etc.), positive/negative electrode adhesives, separators, NMP (N-methylpyrrolidone) and solution recovery devices, etc. The Group also provides solutions such as process improvement and device optimization for the existing production facilities of its customers. In addition, the Group has conducted research and development in other new materials such as silicon carbon anode and carbon nanotube conductive agent and made strategic plans accordingly in this regard.

In the field of biopharmaceuticals, the Group provides a wide range of technologies and products for downstream industries and customers at different stages from laboratory, clinical phase I, II, III to industrial production. It covers upstream and downstream products and diverse products for its renovation needs, including bioreactor/fermentation tank system, culture medium preparation system, harvest system, purification system, pharmaceutical solution preparation system, buffer solution preparation system and storage system, online solution preparation system, inactivation and CIP workstation system, isolator, disposable magnetic mixing system, disposable solution storage and mixing system, modular factory and clean decoration. The Group has also conducted research and development in instrument-grade and laboratory-grade equipment and single-use bioreactor solutions and made strategic plans accordingly in this regard.

In the field of electronic chemicals, the Group mainly provides customers with the production systems for the wet electronic chemicals (including electronic-grade high-purity chemical reagents, such as PPT Grade high-purity sulfuric acid, hydrogen peroxide and ammonium fluoride) widely used in the chip industry, other high-end integrated circuit product industries and liquid crystal panel industry, as well as the core equipment and complete sets of equipment in the field of photovoltaic raw materials (polysilicon), such as vapor deposition reactors and supporting systems. In addition, the Group also conducted research and development in photovoltaic silane gas, electronic-grade polysilicon and heterojunction equipment and made strategic plans accordingly in this regard.

Set out below is the revenue of the major downstream industries for the Reporting Period and the aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts as at 30 June 2022. During the Reporting Period, the rapid growth of the Group's business was mainly attributable to the industries of pharmaceutical and biopharmaceutical and the raw materials of power battery.

Downstream Industry	Revenue RMB'000	Proportion	The aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts RMB'000	Proportion
Electronic chemical	272,742	9.2%	1,157,378	14.7%
Chemical	860,220	29.0%	1,860,234	23.6%
Daily chemical	63,412	2.1%	467,725	5.9%
Raw materials of power battery*	374,343	12.6%	1,261,926	16.0%
Oil and gas	77,059	2.6%	1,022,022	13.0%
Pharmaceutical and biopharmaceutical	1,131,757	38.2%	1,910,266	24.2%
Others	185,332	6.3%	202,081	2.6%
Total	2,964,865	100.0%	7,881,632	100.0%

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

REVIEW ON BUSINESS PERFORMANCE FACTS

During the Reporting Period, the Group managed to record continuous growth in various financial data, with revenue, gross profit, net profit, new orders hitting record highs; as at the end of the Reporting Period, the number and amount of the Group's orders on hand also showed a significant growth momentum compared to the end of the corresponding period in 2021. Among them, revenue for the Reporting Period amounted to approximately RMB2,964,865,000, representing a year-on-year increase of approximately 59.8%; net profit for the Reporting Period was approximately RMB302,536,000, representing a year-on-year increase of approximately 111.8%; the number of new orders placed during the Reporting Period was 455, with a contract value of approximately RMB5,111,849,000, representing a year-on-year increase of approximately 50.1%; and as at 30 June 2022, the number of orders on hand was 555, with a contract value of approximately RMB7,881,632,000, representing a year-on-year increase of approximately 61.5%. It is expected that the expanded production capacity lately put into operation and the original production capacity of the Group will be fully utilized throughout 2022.



Management Discussion and Analysis

During the Reporting Period, Shanghai, where a main manufacturing base of the Group is located, experienced more than two months of lockdown due to the COVID-19 pandemic. Under the leadership of the management, all the employees of the Group took the bull by the horns, and managed to achieve record highs for all the key indicators despite the extremely unfavorable manufacturing conditions and tight delivery pressure. Looking forward to the second half of 2022, the Group will continue to make use of its effective production capacity, tap the potential, and take advantage of the rapid development period of various downstream industries, and the Group is confident that it will continue to maintain a good business performance.

CONCERTED EFFORT IN FACE OF THE COVID-19 PANDEMIC LOCKDOWN

From February 2022, Shanghai was hit by the COVID-19 pandemic. Since 28 March 2022, Shanghai has implemented blockade and control measures in batches with the Huangpu River as the boundary, as a result of which, the supply chain and logistics of local enterprises were materially affected, and most employees were unable to commute and go to work as usual.

In mid-March 2022, the management of the Group had become fully aware of the possible impact of the current round of COVID-19 pandemic and its impact on the Group's operations. Therefore, starting from late March 2022, the Group organized a special team of leaders to allocate resources to fully prepare for lockdown management. Benefiting from the Group's continuously improved modern remote office system, during the period of lockdown, the Group's technical management team and engineering team could use the network-based remote office system to complete most work tasks at home or other places in a timely manner, and helped the production teams to complete the production tasks through the network platform. In addition, under the leadership of the personnel on duty at various key positions, the Group organized more than 1,300 employees to engage in closed-loop production during the lockdown period, helping the Group to survive this extraordinary period smoothly and efficiently. As such, although the production capacity of the Shanghai manufacturing base accounts for approximately 30% of the Group's total production capacity, this round of lockdown management did not result in any material impact on the Group's operating results during the Reporting Period, nor did it materially affect the achievement of the Group's full-year operating goals for 2022.

In April 2022, whilst Shanghai was still in lockdown, the Group successfully shipped the Moroccan modular vaccine factory project with the highest contract value and largest product volume ever from the Shanghai manufacturing base. This project will be the first modern biological vaccine factory in Africa, and according to the press release of Agence Marocaine De Presse in January 2022, the project will, after put into operation, meet approximately 60% of the vaccine needs of the entire Africa and help Africa effectively respond to public health crises like the COVID-19 pandemic.

CORPORATE DEVELOPMENT STRATEGY

Center on technological innovation and focus on core equipment

For the research and development, synthesis and technical improvement of non-natural materials, the Group will design and build related process equipment (such as reactors and other industrial core equipment) and complete sets of equipment (such as process module products) for customers by centering on the engineering application of biological reactions, chemical reactions and polymerization reactions, and will, through joint laboratory research and development projects with downstream enterprises and cooperation projects with scientific research institutions such as domestic and international universities, deeply participate in the early process (not industrial production stage), small-scale experiments (such as industrial small test, pilot test) and later factory operation and maintenance tracking and process optimization services for material innovation.

The Group is committed to actively responding to the innovation needs of downstream enterprises, and helping customers transform laboratory technology into industrial products of safety, reliability and high economical efficiency, such as core reactors, complex process systems and modular factories, through various forms of cooperation, products and services and based on customized solutions and advanced digital technology.

Full life cycle coverage of new technologies and products

The Group is committed to the research and development, production and improvement of new products and technologies in downstream industries. Through deep involvement in the research and development of new products and new technologies in downstream industries, the Group achieves deep binding with customers, and provides customers with products and services covering the full life cycle at different stages such as testing, trial production, commercial production, and operation and maintenance.

Digital and intelligent comprehensive solutions

The Group fully applies digital technology in the research and development, design, construction, delivery and operation and maintenance stages of specific technologies and products, and makes use of cloud data processing and storage technologies to support the digital execution and intelligent operation and maintenance of global projects. In the design stage, the Group can establish a digital identity for each part through the ERP (Enterprise Resource Planning) system; in the construction stage, the Group can establish digital instructions for the production process through the MES (Manufacturing Execution System) system. The Group can customize digital operation and maintenance platforms for downstream customers, help customers implement digital management of technological processes, and provide interfaces to “digital twin factories”, thereby eventually creating digital and intelligent comprehensive solutions for industrial equipment.

Continued growth beyond industrial cycle

Through the in-depth participation in the industrial application of various reaction technologies, the Group has been serving different industries as always, especially the leading enterprises in these industries, including the international and domestic well-known enterprises in oil and gas, new chemical materials, pharmaceuticals and biopharmaceuticals, raw materials of power battery, daily chemicals, food, electronic chemicals and many other industries/fields. The Group has maintained close cooperation with these leading enterprises for a long time, and effectively allocated its own resources and production capacity to meet the investment-cycle needs of popular sectors and industries. The Group also maintains close cooperation with leading enterprises that are not currently in the investment cycle by providing pre-sales and after-sales services, such as joint research and development, project consultation, equipment maintenance, engineering transformation and provision of spare parts, etc., so as to get ready for the upcoming investment cycle.

The growth and development of the Group has always been embedded in the investment cycle of different industries, and have always been accompanied by the technological innovation and product iteration process of leading enterprises in different industries. The technological innovation and product iteration of leading downstream enterprises is an important growth engine for the Group, while promoting the continuous updating of the Group’s own products and technologies. The business growth of the Group is derived from the investment cycles of different industries, thereby avoiding the unfavorable factors such as the reliance on a single industry, the cyclical fluctuations in supply and demand, single product type and limited market capacity.

MVP (Machines, Values, Plants) model based on value enablement

Machines refers to the products represented by various types of reactors, which reflect the core technical needs of customers, and are also representative of the Group’s competitive advantages and the high match with the technical development trend of downstream industries. In addition, the reactors provided by the Group for the product lines in different downstream industries also reflect the Group’s familiarity and mastery of various technologies, processes and their industrialization processes.



Management Discussion and Analysis

Values refer to the added value that the Group can bring to customers in various forms in addition to specific products, including but not limited to the process optimization of reaction process, scale-up and engineering application of miniaturized material synthesis technology, rapid deployment of advanced engineering solutions worldwide, and digital process tracking and continuous improvement programs. It is the original intention of the Group to pursue value-added services by empowering downstream industries and helping customers achieve rapid industrialization of various reaction technologies and continuous process improvement. The Group's global team can quickly respond to the needs of customers from various countries and regions, and provide customers with value-added services such as project feasibility studies, joint research and development, technical transformation plans and joint laboratories and teams at the front-end and back-end of order performance.

Plants refer to the ultimate expression of engineering solutions — modular factories. The Group highly integrates the value that can be exerted in various reaction stages, and eventually helps downstream industries to successfully realize the commercial production of specific technologies and products through digital and intelligent process solutions and specific products such as modular factories, and realize process tracking and technological improvement through digital operation and maintenance platforms, thereby providing data and platforms for the continuous innovation of downstream industries.

PRODUCTS, CUSTOMER RELATIONSHIP AND MARKET

Type of products

The main products of the Group include:

- 1) Core equipment, including reactors applied in different industries/fields, such as multifunctional reactors (multifunctional filter washing dryer) for the pharmaceutical and raw materials of power battery industries, bioreactors for the biopharmaceutical industry, hydrometallurgical pressure leaching reactors (high-pressure autoclaves) for the industry of raw materials of power battery, vapor deposition reactors (polysilicon reduction furnaces) for the photovoltaic industry, reactors for various processes for the energy and chemical industries, and micro-reactors for synthetic technologies. Such types of products are the core equipment of different industrial installations, and the core equipment to help customers achieve process requirements and achieve continuous production with ensured quality and quantity, and usually require ultra-high technologies for design and manufacturing.
- 2) Process system, which refers to a complete set of equipment including structural parts, electrical controls, pipes, equipment and fluid control components, and is a highly integrated industrial solution. A process system equipped with core equipment such as reactors is often a form of highly integrated product favored by customers, which helps to achieve single-interface project management and efficient on-site installation, and is an efficient solution for process upgrades.

A process system comprises single-function skid-mounted equipment, process modules and other types of complete sets of equipment, which can also be applied to multiple downstream industries and is highly recognized and accepted by leading enterprises in various industries. A process system equipped with the Group's reactors (core products of the Group) has become one of the best choices for downstream enterprises to achieve technological upgrading, process improvement and device renewal, such as bioreactors and fermentation systems, production systems for new lithium salts, pilot systems for new hydrometallurgy processes, industrial test devices for new cathode materials, and production lines for the daily chemical industry, etc.

- 3) Modular factory is a comprehensive engineering solution that helps downstream customers to industrialize their specific technologies and products. Through one-stop services, it helps to integrate customers' process requirements, including quality, output and production time, into a complete set of engineering products, and deliver prefabricated factory products to all parts of the world through off-site construction and on-site installation.

The advantages of the Group's modular factory products include:

- A. a single interface. It is conducive to the protection of customers' intellectual property rights.
- B. one-stop service. It is conducive to the efficient project management of the customers' teams.
- C. the compatibility with global standards. The Group can design and build modular factories for various industries in accordance with the norms and industry standards of the countries in Europe, America, Oceania, Africa and Asia. Over the years, the Group has successively gained experience in project delivery in the above regions, and can dispatch experienced teams to support on-site module reassembly and provide services such as commissioning, verification and trial operation.
- D. high economic and time benefits. By making full use of the entire industrial chain and abundant human resources in China, the products take into account the needs of developed countries for continuous cost optimization and the characteristics of developing countries with a large number of mature labor force, and significantly lower the difficulty of project execution in countries at different stages of economic development by maximizing the volume of pre-manufacturing engineering (about 80% is generally completed in the manufacturing bases of the Group).
- E. the coverage on the entire life cycle of digital projects. The Group helps customers to carry out data modeling and digital process management for the design, construction, and post-delivery operation and maintenance of the entire project, and implement digital management on the reliability, economic benefits, and product quality of the entire system to achieve continuous tracking, optimization and improvement of the process flow, and establish a fully digital twin factory through modeling and simulation and by means of virtual reality to achieve process optimization and maximize economic benefit.

Customer relationship and type of business

Good customer relationship is an important asset of the Group, and the trust of customers is an important driving force for the long-term and continuous development of the Group. The demand for innovation from various downstream industries is a strong bond between the Group and its customers, and is also the driver for the continuous development of the Group's business.

The Group's customers are mainly leading enterprises from various downstream industries, and represent the highest development levels and future development trends of their respective industries. The research and development needs and the continuous cyclical investment of leading enterprises are the foundation of the Group's business. The multiple investment cycles and continuous research and development needs of various leading enterprises in different downstream industries are the driving engines for the Group to pursue sustainable business growth.

The cooperation between the Group and the leading enterprises in various downstream industries starts from a single market and simple products, and then through years of mutual understanding and running-in, the areas of cooperation and common markets were deepened, thereby realizing the continuous evolution of product forms and the continuous diversification of the market. The global presence of leading enterprises in downstream industries has also helped the Group to continuously enter new markets and be rapidly accepted by other customer groups in the local market. Such a process has promoted the continuous improvement of the Group's technical capabilities, manufacturing capabilities and quality control capabilities, and also enhanced the Group's market recognition and brand effect in different downstream industries.



Management Discussion and Analysis

The main business sources of the Group include 1) capital expenditure construction projects from downstream industries; 2) renovation and technological transformation projects in downstream industries; and 3) operation and maintenance projects in downstream industries, such as the provision of spare items and parts for equipment operation and engineering renovations and other fee-based services. Among them, business 1) and business 2), such as the construction of customers' new factories and major capacity expansion, are the most important business sources of the Group. Meanwhile, the Group also actively maintains a good cooperative relationship with customers who are not in the investment cycle through business 3), and helps customers to get well prepared in terms of technology and production capacity for the launch of new technologies and new products through real-time communication.

Domestic market and overseas market

Adhering to the market strategy of balanced domestic and overseas development and effective risk control, the Group has always been deeply cultivating domestic and overseas markets, and maintains cooperation with leading international and domestic enterprises in various industries.

The Group's products have been exported to more than 40 countries around the world, covering Asia, Africa, Europe, America, and Oceania, as well as various industries/fields including oil and gas, new chemical materials, pharmaceuticals and biopharmaceuticals, raw materials of power battery, daily chemicals, foods, and electronic chemicals.

The Group has achieved the substitution of high-end imported industrial equipment with domestic equipment and the first export of advanced products made in China in different industries/fields, including 1) chemical core equipment in the European market; 2) high-end energy equipment in the US market; 3) core reactors for the power battery raw material projects in Africa and Oceania; and 4) domestic substitutes for high-end equipment from Europe, US and Japan accepted by leading enterprises in different fields in China.

During the Reporting Period, the proportion of the Group's revenue from overseas markets to the total revenue increased significantly compared to the same period in 2021, and among the new orders, the amount of orders from overseas accounted for approximately 40.9%.

SECTOR STRATEGY AND NEEDS OF POPULAR DOWNSTREAM INDUSTRIES

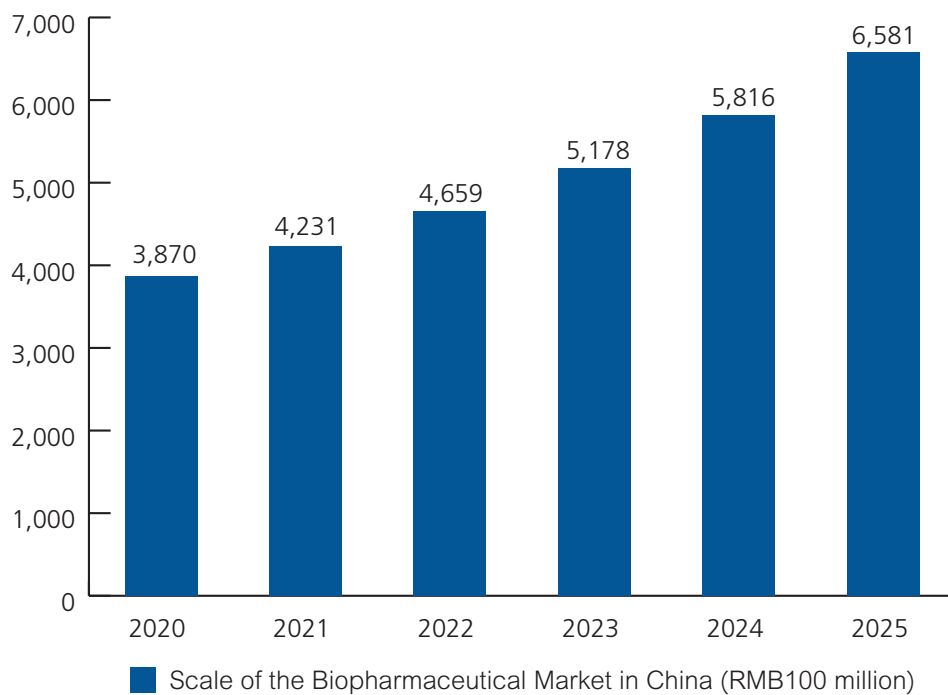
The Group's business mainly comes from 1) downstream industries with continuous innovation needs; 2) popular industries in the capital investment cycle; 3) emerging industries representing the future technological development trend; 4) industries and enterprises with long-term cooperation relationship; and 5) other industries and enterprises that can promote the sustainable growth of the Group.

During the Reporting Period, the following four sectors were still the main sources of the Group's revenue and new orders: 1) biopharmaceuticals; 2) raw materials of power battery; 3) new chemical materials; and 4) electronic chemicals. Meanwhile, the Group also achieved encouraging performance growth in other traditional sectors, including 1) oil and gas; and 2) daily chemicals.

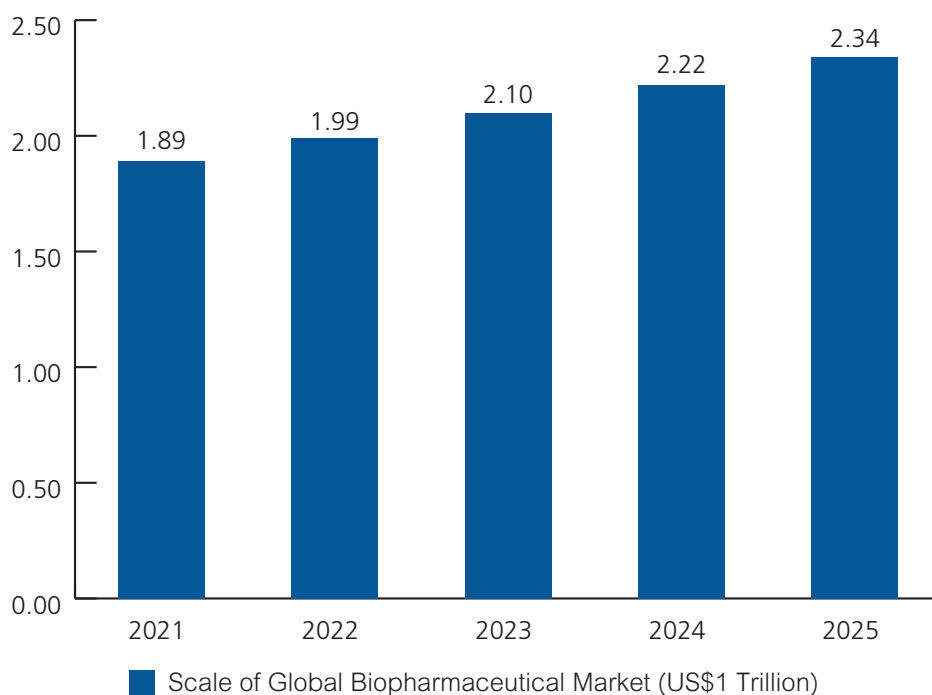
Biopharmaceuticals

On 10 May 2022, the National Development and Reform Commission of the State Council issued the 14th Five-Year Plan for Bioeconomic Development (《“十四五”生物經濟發展規劃》), which clearly stated to promote the integration and innovation of biotechnology and information technology, and accelerate the development of biomedicine, biological breeding, biological materials and bio-energy industries to expand and enhance bio-economy. With the development and breakthrough of cutting-edge fields such as preventive and therapeutic vaccines, gene therapy, immune cell therapy, stem cell therapy and cell reprogramming induced pluripotent stem cells (iPSC), the biopharmaceutical industry will enter a new stage of rapid development. At present, the five biopharmaceuticals with the highest market visibility are: blood products, recombinant proteins, vaccines, monoclonal antibodies, and cell therapy products.

Forecast on the Market Scale of the Biopharmaceutical Industry in 2020–2025



Management Discussion and Analysis



Source of data: Shenzhen Zero Power Intelligence Industrial Research Institute Co., Ltd. (深圳市中研普華產業研究院有限公司)
("Zero Power Intelligence Industrial Research Institute")

A series of factors, such as the per capita GDP in China reaching US\$10,000, the raging of the COVID-19 pandemic, the state of an aging society and the inclusion of biological drugs in the national collective drug procurement, have promoted the technological iteration of biological drugs (such as vaccine products and nucleic acid drug products), new round of investment in biological medicines for the purpose of achieving economies of scale and the expectations of the advancement in biological medicines (advanced vaccine products, recombinant protein products and cell therapy products).

With the rapid introduction of modern medical technology into biotechnology, the biopharmaceutical industry has become one of the most active industries with the greatest diversity of technologies and the fastest technological progress. According to the forecast of the Zero Power Intelligence Industrial Research Institute, the market size of the biopharmaceutical industry in China will grow from approximately RMB387.0 billion in 2020 to approximately RMB658.1 billion in 2025; while the global biopharmaceutical market will grow from approximately US\$1.89 trillion in 2021 to approximately US\$2.34 trillion in 2025.

Raw materials of power battery

According to a survey by CITIC Securities Company Limited (“**CITIC Securities**”), from January 2022 to May 2022, the total sales volume of the passenger vehicle industry in China was approximately 8.13 million units, representing a year-on-year decrease of approximately 3.5%. Starting from May 2022, the resumption of work and production was accelerated, and the year-on-year decrease in wholesale sales narrowed to approximately 1.4%, while a clear contrast to this is the sales of new energy vehicles. From January 2022 to May 2022, the total sales volume of new energy passenger vehicles in China reached approximately 1.908 million units, representing a year-on-year increase of approximately 115%, of which the percentage of the sales volume of new energy passenger vehicles to the total sales volume of the entire passenger vehicle industry was approximately 24.7%, 29.0% and 26.3% in March, April and May, respectively. CITIC Securities predicts that the sales volume of new energy passenger vehicles will reach approximately 5.7 million units in 2022, representing a year-on-year increase of approximately 71.5%, and estimates that the sales volume of new energy passenger vehicles will reach approximately 8.0 million units in 2023, representing a year-on-year increase of approximately 40%.

There are mainly four types of raw materials for automotive power batteries, namely positive electrode materials, negative electrode materials, separators and electrolyte. Among them, the positive electrode materials account for nearly one-third, the highest proportion, of the battery cost. The cost of positive electrode materials is mainly composed of lithium carbonate and various corresponding precursor materials (including lithium iron phosphate, ternary materials of nickel, cobalt, and manganese). The main constituent materials of electrolyte include solvents, lithium salts and various additives. According to data released by the Innovation Alliance of China Automotive Power Battery Industry (中國汽車動力電池產業創新聯盟) in April 2022, compared with the beginning of last year, the average price of the popular positive electrode materials for ternary lithium battery increased by approximately 108.9%, the average price of the positive electrode materials for lithium iron phosphate battery increased by approximately 182.5%, the average price of the electrolyte for ternary lithium battery increased by approximately 146.2%, and the average price of the electrolyte for lithium iron phosphate battery increased by approximately 190.2%.

According to a report by Sina Finance in June 2022, the global penetration rate of new energy vehicles is expected to continue to rise to approximately 20% in 2025, and correspondingly, the demand for power batteries will continue to see a strong growth. It is estimated that by 2025, the global demand for power batteries will exceed 1,200 gigawatt hours (“**GWh**”), and taking into account the small batteries and energy storage batteries, the total shipment will exceed 1,600GWh. S&E Research Co., Ltd. predicts that by 2023, the global shortfall for power batteries will be about 18%; and by 2025, the shortfall will expand to about 40%.

The continuous and rapid growth of new energy vehicles worldwide will continuously challenge the limited supply capacity of the industry of raw materials of power battery, and the unbalanced supply and demand relationship and the project cycles of various raw materials that do not match the demand will further stimulate the investment and construction of the raw material industry, while driving the rapid technological update and iteration of power battery.

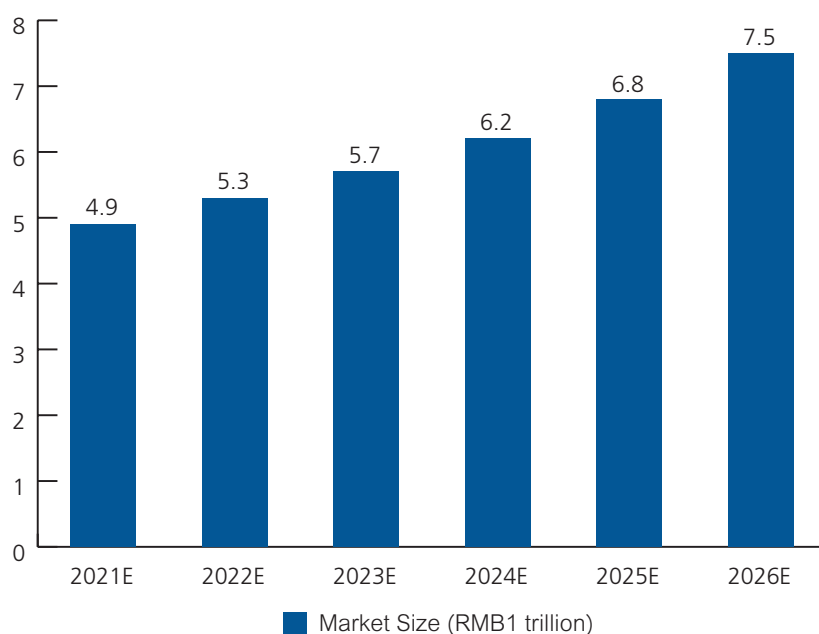
New chemical materials

As the most important industry with a strong focus on the research and development and production of new synthetic materials, the chemical industry has many characteristics such as product diversification, technological timeliness and innovation leadership. The chemical industry comprises a great number of sub-industries, which continuously provide various production and living elements for social progress, economic development and improvement of human life in various areas, especially the various new materials with environmental protection effects. The 14th Five-Year Development Guide for New Chemical Materials Industry (《化工新材料產業“十四五”發展指南》) put forward the development target of the new material industry in China: during the “14th Five-Year Plan” period, the revenue and fixed asset investment of the new chemical materials industry will maintain a rapid growth, and strive to achieve high-end and differentiated development by 2025, with the development mode changed significantly, and the quality of economic operation significantly improved.

Management Discussion and Analysis

Starting from 2021, under the continuous influence of the Double Carbon Commitment, the expansion of production capacities in the chemical industry has been accelerated, bringing about a differentiated expansion cycle. According to data from China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會), the global market size for new chemical materials reached approximately US\$370 billion in 2019, and is expected to reach approximately US\$480 billion in 2025; the domestic output value of new chemical materials in 2019 was about RMB600 billion, while the total consumption scale was about RMB900 billion (with imports amounting to approximately RMB300 billion), and the production and consumption volume amounted to about 24.64 million tons and 34.88 million tons, respectively. The self-sufficiency rates are still relatively low in many fields such as high-end polyolefins, engineering plastics, functional film materials, high-performance fibers and electronic chemicals. With the accelerated pace of domestic industrial upgrading, the demand for new chemical materials will continue to grow. It is expected that the total consumption volume will reach approximately 57.17 million tons by 2025, with a compound annual growth rate (CAGR) of approximately 8.6% during the 14th Five-Year Plan period. As forecast by the Zero Power Intelligence Industrial Research Institute, the market size of the new chemical materials industry in China will grow from approximately RMB4.9 trillion in 2021 to approximately RMB7.5 trillion in 2026.

Forecast on the Size of the New Chemical Materials Market in China in 2021–2026



Source of data: Zero Power Intelligence Industrial Research Institute

Electronic chemicals

Electronic chemicals, also known as electronic chemical materials, generally refer to the special chemicals and chemical materials used in the electronic industry, including various chemicals and materials used in the production and packaging of electronic components, printed circuit boards, integrated circuits, printed wire boards, and industrial and consumer machines. Electronic chemical is a field integrating multiple disciplines of chemistry, chemical engineering, materials science, and electronic engineering.

Wet electronic chemicals are various electronic chemical materials used in microelectronics and optoelectronic wet processes (mainly including wet etching, cleaning, development and interconnection, etc.). Wet electronic chemicals can be divided into general chemicals (also known as ultra-clean and high-purity reagents) and functional chemicals based on their uses, such as electronic-grade sulfuric acid, hydrogen peroxide, ammonia water and ammonium fluoride.

According to the data from China Electronic Materials Industry Association, in 2021, the total consumption volume of wet electronic chemicals worldwide reached approximately 4.583 million tons, of which the demand for wet electronic chemicals in the integrated circuit field reached approximately 2.09 million tons, and the demand for wet electronic chemicals in the new display field reached approximately 1.672 million tons; in the future, the main driving forces for the growth of global demand for wet chemicals will be the completion and commissioning of multiple wafer factories and the development of the organic light emitting diode (OLED) panel industry. It is expected that by 2025, global demand for wet chemicals in the integrated circuit field will increase to approximately 3.13 million tons, the demand for wet chemicals for display panels will increase to approximately 2.44 million tons, and the total demand for wet electronic chemicals will reach approximately 6.972 million tons.

Since the commencement of armed conflict between Russia and Ukraine on 24 February 2022, the oil and gas supply in the international market has been severely impacted, and the world has once again seen the importance of non-traditional energy and its related industries for energy security, with the solar energy and photovoltaic industries being important components of the new energy industry. Therefore, all countries have actively introduced relevant policies to promote the development of photovoltaic industry. China has intensively issued favorable policies for new energy such as the 14th Five-Year Plan for the Development of Renewable Energy (《“十四五”可再生能源發展規劃》), with an aim to comprehensively guarantee the completion of new energy installation targets in China in terms of demand, consumption, approval, supply chain and finance. In May 2022, the REPowerEU plan was launched in Europe, proposing to bring the installed capacity of photovoltaics to approximately 320 gigawatt (“GW”) by 2025 and approximately 600GW by 2030; and the photovoltaic demand in Europe will increase beyond expectations under encouraging policies. The Biden administration of the United States announced an exemption from tariffs on photovoltaic modules from four Southeast Asian countries for 24 months, and the reduction of land cost for wind and solar projects by approximately 50%. As such, in the next two years, it is expected that the installation of solar photovoltaic will increase significantly in the United States and the photovoltaics market industry worldwide will usher in a stage of comprehensive and rapid development.

Many countries have launched a number of policies to vigorously support the construction of the solar photovoltaic industry; in the next ten years, greater efforts will be exerted on the clean and low-carbon transformation of the global energy structure. High-purity polysilicon is the basic raw material for the electronics industry and the solar photovoltaic industry. In the next 50 years, it is unlikely that there will be other materials that can replace silicon and become the main raw material for the electronics and photovoltaic industries.

EXPANSION AND ADDITION OF PRODUCTION CAPACITY

Nantong Manufacturing Base Expansion Project

During the Reporting Period, the Group’s expansion project of Morimatsu Heavy Industry located in Rugao Port, Nantong City, Jiangsu Province, with a gross floor area of approximately 38,000 square meters commenced operation. The expansion project mainly included a new workshop for processing heavy-duty traditional pressure equipment, a new workshop for assembling heavy-duty traditional pressure equipment and two new workshops for assembling modular pressure equipment. The commencement of operation of the Group’s Nantong Base expansion project will increase the existing production capacity by 20% to 25%.



Management Discussion and Analysis

Changshu Manufacturing Base Project

During the Reporting Period, the Group's high-end equipment manufacturing base project of Morimatsu LifeSciences located in Changshu, Suzhou City, Jiangsu Province was initiated, the first phase of which has an area of approximately 130,000 square meters, and is expected to be delivered and put into operation in the fourth quarter of 2023, achieving an estimated annual sales of RMB2 billion. The project, when put into operation, will be mainly used to provide high-end process equipment and advanced complete sets of equipment for the biopharmaceutical industry, wet electronic chemical industry, daily chemical industry and other precision industries with high requirements on cleanliness.

Malaysia Manufacturing Base

During the Reporting Period, Morimatsu Dialog (Malaysia) Sdn. Bhd., a joint venture of the Group located in Pengerang, Malaysia, was developing steadily as planned and has now started to accept new orders. The Group plans to further expand the construction of the joint venture in Malaysia as an overseas extension of the Group's overall production capacity, so as to extend its reach to the Southeast Asian, Middle East and North American markets more effectively, and serve the industries/fields of raw materials of power battery, energy chemicals as well as pharmaceutical and biopharmaceuticals in such regions.

INNOVATION AND RESEARCH AND DEVELOPMENT

The Group has always been committed to innovation and research and development, and has integrated corporate growth, team building and employee career development into its continuous innovation business. The power of the Group for innovation stems from mankind's pursuit of a green world and healthy life, the development trend of downstream industries and the deep-seated value demands of customers. The Group's development is accompanied by the technological innovation and product iteration in various downstream sectors, thereby achieving the continuous upgrading and iteration of its own products and services.

The innovation initiatives of the Group include 1) innovation in research and development model; 2) innovation in technologies and products; and 3) innovation in management thinking.

The innovation in research and development model stems from the value demand of downstream industries, and the Group has developed a research and development model that is linked with downstream technology and product innovation. In addition, the Group maintains close cooperation with well-known domestic and international universities, and brings practical projects to universities and advanced technologies to enterprises, thereby promoting the close cooperation among downstream enterprises, the Group and universities, and realizing a circular and cross-sector integration of production, education and research.

The innovation in technologies and products stems from the recognition and understanding of the value needs of downstream industries. Through our underlying technical capabilities, the Group formulates personalized solutions for customers, designs and manufactures innovative products, and maximizes the satisfaction of customers' value needs.

The innovation in management thinking stems from the Group's encouragement of business innovation. Through the internal entrepreneurial platform, employees are encouraged to start with the research and development of new products and new technologies, transform theory into application, and industrialize personal innovation and turn the innovation team into a legal corporation when conditions are met by taking advantage of corporate resources and platforms, so as to realize the common growth of individuals and enterprises.

The innovation capabilities with consideration of downstream enterprises build the core corporate competitiveness and sustainable corporate growth capabilities, and also help the enterprises to continuously overcome the periodicity of focusing on a single sector and the timeliness of focusing on a single product. During the Reporting Period, the Group carried out innovation and research and development of applied technologies in the following sectors, and some products have been successfully delivered to customers and put into production:

- 1) new mRNA vaccine production system;
- 2) new mammalian cell culture system;
- 3) new small-molecule drug production system;
- 4) disposable bioreactor systems;
- 5) new industrial automation systems (e.g. robotic workstations);
- 6) advanced chromatography system;
- 7) digital factory operation and maintenance service platform;
- 8) new prophylactic recombinant protein vaccine production system;
- 9) microfluidic nanomedicine preparation system;
- 10) lithium battery solvent recycling system;
- 11) others.

CULTIVATION OF HUMAN RESOURCES

Talents are the most valuable assets of the Group. “Investment”, “construction” and “development” are the three key words in the Group’s talent strategy.

The Group constantly invests in and cultivates young employees, especially young technical personnel. Through close cooperation with domestic and international universities, scientific research institutions and downstream industries, it provides young technical personnel with the opportunities for further study across industries and fields, thereby driving the development of the Group.

The Group provides different types of internal incubation platforms to encourage employees to take advantage of the Group’s resources to form internal entrepreneurial teams, so as to achieve a win-win situation among the Group, the entrepreneurial teams and the employees. Currently, the Group has established six internal entrepreneurial teams, which are respectively engaged in the research and development of new technologies and new products in the fields of new materials, biopharmaceuticals, and advanced equipment.

During the Reporting Period, the Group’s subsidiaries located in Sweden, Italy, India, Malaysia and Japan continued to expand the size of their teams, continued to recruit professionals from downstream industries, scientific research institutions, industry associations and other fields, efficiently and vigorously participated in international projects in various downstream fields, and actively participated in the process of providing technical support, project consultation and joint research and development for customers.

The development of the Group is inseparable from the development of the talents, and the personal growth of employees and the sustainable growth of the enterprise are mutually sufficient and necessary conditions. The Group provides career development paths and opportunities for employees, and employees continue to consolidate the Group’s strategic foundation through their own development. The Group’s target in respect of employee training is to cultivate professional and technical personnel with an open learning outlook and a grand international outlook, so as to match the Group’s development direction of becoming an international learning organization.



Management Discussion and Analysis

INTEGRATED AND DIVERSIFIED DEVELOPMENT, AND STEADY GROWTH IN PERFORMANCE, ENABLING A FUTURE WITH INFINITE OPPORTUNITIES

During the Reporting Period, the Group achieved rapid growth in terms of revenue, the number of new orders and orders on hand, and net profit and gross profit simultaneously, and won the continuous support of customers in various industries and the trust of investors. Facing the vigorous development of various downstream industries, the Group adhered to the strategy of diversified development and balanced internal and external development, and achieved new highs in different sectors.

Looking back upon the growth path and various development milestones of the Group, the Group has continuously shaped, accumulated and strengthened its own competitive advantages and market value mainly through the following methods:

- 1) keeping the simultaneous development in multiple sectors to avoid the dependence on a single sector and the dependence on investment cycle; making full use of the investment gaps in different industries, rationally expanding production and layout to achieve sustainable and continuous growth.
- 2) maintaining close relationship with customers by not only focusing on serving the industries and customers in investment cycles, but also serving the industries and customers that are not yet in investment cycles in a timely manner through pre-sales and after-sales services.
- 3) maintaining long-term close cooperation with leading enterprises in various fields, and integrating its development into the strategic layout of leading enterprises in various industries. The characteristics of leading enterprises are not only reflected in the aspects of “large volume”, “fast growth” and “extensive layout”, but also in the leadership of the development trend of the industries and the relentless technological innovations and product iterations.
- 4) exerting continuous efforts on the balance of domestic and overseas development, not only focusing on domestic or overseas customers, but also focusing on the value needs of leading customers, and making full use of global resources for worldwide cooperation.

With technological innovation as the growth engine, talent development as the foundation of performance, and science as the guidance for sound production capacity layout, the Group will make unremitting efforts to continuously create benefits for investors, deliver value to downstream industries, provide employees with development opportunities, and shoulder its corporate responsibilities to the society.

FINANCIAL DATA

On 28 February 2022, the Group completed the acquisition of entire issued shares of common stock of Morimatsu Houston, the acquisition was regarded as a business combination under common control by the Group in accordance with the principles of merger accounting as set out in Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants. The financial information of the Group for the year ended 31 December 2021 and for the six months ended 30 June 2021 was restated accordingly to comply with the relevant accounting standards.

Revenue

The production capacity expansion project of the Group’s base in Nantong was delivered and put into operation, which expanded the existing production capacity and ensured the on-time performance of the Group’s sales contracts during the pandemic lockdown measures in Shanghai. The revenue of the Group increased by approximately 59.8% from approximately RMB1,855,673,000 for the six months ended 30 June 2021 to approximately RMB2,964,865,000 for the six months ended 30 June 2022. The increase was mainly attributable to: 1) the increased orders from the pharmaceutical industry and the delivery of large-scale modular factories; and 2) the increased orders from the raw materials of power battery industry, of which the orders for the equipment used to manufacture electrolytes, additives and ternary positive and negative materials increased significantly.

Revenue	Six months ended 30 June				Increase RMB'000	Year-on-year change
	2022		2021			
	RMB'000 (unaudited)	Proportion	RMB'000 (unaudited) (restated)	Proportion		
Electronic chemical	272,742	9.2%	89,508	4.8%	183,234	204.7%
Chemical	860,220	29.0%	864,605	46.6%	-4,385	-0.5%
Daily chemical	63,412	2.1%	64,928	3.5%	-1,516	-2.3%
Raw materials of power battery*	374,343	12.6%	31,995	1.7%	342,348	1,070.0%
Oil and gas	77,059	2.6%	181,616	9.8%	-104,557	-57.6%
Pharmaceutical and biopharmaceutical	1,131,757	38.2%	551,020	29.7%	580,737	105.4%
Others	185,332	6.3%	72,001	3.9%	113,331	157.4%
Total	2,964,865	100.0%	1,855,673	100.0%	1,109,192	59.8%

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

Management Discussion and Analysis

Cost of Sales

The cost of sales of the Group increased by approximately 58.9% from approximately RMB1,369,770,000 for the six months ended 30 June 2021 to approximately RMB2,176,441,000 for the six months ended 30 June 2022. The increase in cost of sales was basically in line with that of the Group's revenue.

Cost of Sales	Six months ended 30 June				Increase RMB'000	Year-on-year change
	2022 RMB'000 (unaudited)	Proportion	2021 RMB'000 (unaudited) (restated)	Proportion		
Raw materials and consumables	1,446,587	66.5%	881,310	64.3%	565,277	64.1%
Direct labour cost	231,631	10.6%	194,947	14.2%	36,684	18.8%
Outsourcing fees	179,804	8.3%	92,388	6.7%	87,416	94.6%
Installation and repair cost	193,694	8.9%	79,075	5.8%	114,619	144.9%
Depreciation	30,550	1.4%	29,978	2.2%	572	1.9%
Impairment losses on assets	-268	0.0%	6,703	0.5%	-6,971	-104.0%
Others (indirect labour cost + design fees)	94,443	4.3%	85,369	6.3%	9,074	10.6%
Total	2,176,441	100.0%	1,369,770	100.0%	806,671	58.9%

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by approximately 62.3% from approximately RMB485,903,000 for the six months ended 30 June 2021 to approximately RMB788,424,000 for the six months ended 30 June 2022, which was basically in line with the growth of the Group's revenue. The gross profit margin for the six months ended 30 June 2022 remained relatively stable as compared with the corresponding period in 2021.

Selling and Marketing Expenses

The selling and marketing expenses of the Group increased by approximately RMB51,331,000 from approximately RMB44,106,000 for the six months ended 30 June 2021 to approximately RMB95,437,000 for the six months ended 30 June 2022. For the six months ended 30 June 2022, the selling and marketing expenses recorded a year-on-year increase of approximately 116.4%, which was mainly due to the increase in commission fee of approximately RMB42,780,000 incurred by the Group to expand overseas markets and new customers.

General and Administrative Expenses

The general and administrative expenses of the Group increased by approximately RMB43,607,000 from approximately RMB184,874,000 for the six months ended 30 June 2021 to approximately RMB228,481,000 for the six months ended 30 June 2022. For the six months ended 30 June 2022, the general and administrative expenses recorded a year-on-year increase of approximately 23.6%, which was mainly due to 1) no listing expenses were incurred during the Reporting Period after the successful listing of the Company on 28 June 2021; and 2) the continuous implementation of a series of cost reduction and efficiency enhancement measures to reduce general and administrative expenses.

Research and Development Expenses

The research and development expenses of the Group increased by approximately 87.9% from approximately RMB77,436,000 for the six months ended 30 June 2021 to approximately RMB145,505,000 for the six months ended 30 June 2022. For the six months ended 30 June 2022, the research and development expenses accounted for approximately 4.9% of the Group's revenue, representing an increase of approximately 0.7% from approximately 4.2% for the six months ended 30 June 2021, which was mainly because 1) the Group increased the investment in the research and development of new fields and new technologies, and continued to carry out scientific research projects, such as school-enterprise cooperation; and 2) the number of research and development personnel increased from 356 as at 30 June 2021 to 487 as at 30 June 2022, which led to the increase in research and development labor cost of approximately RMB20,567,000 for the six months ended 30 June 2022 as compared to the corresponding period in 2021.

Finance Costs

The finance costs of the Group decreased by approximately 31.3% from approximately RMB11,505,000 for the six months ended 30 June 2021 to approximately RMB7,900,000 for the six months ended 30 June 2022, which was due to the repayment of part of the bank borrowings by the Group in the second half of 2021, resulting in a corresponding decrease in interest expenses.

Net Profit for the Period

The net profit of the Group increased by approximately 111.8% from approximately RMB142,843,000 for the six months ended 30 June 2021 to approximately RMB302,536,000 for the six months ended 30 June 2022, and the increase in net profit for the Reporting Period was mainly due to 1) the expansion of business scale and the increase in production capacity, resulting in a significant increase in revenue; 2) the continuous improvement of operating efficiency; 3) the purchase of short-term bank wealth management products to improve the yield of idle funds on the premise of ensuring sufficiency of daily working capital; and 4) the increase in export projects, some of which, denominated in Euros and involving a large amount of advance receipts, generated foreign exchange gains when recognizing revenue upon completion, resulting in an increase in the exchange gains as compared with the corresponding period in 2021, partially offset by the following: 1) the increase of approximately RMB42,780,000 in the commission fee for developing overseas markets and new customers; 2) the increase of approximately RMB35,650,000 in the equity-settled share-based payment expenses as compared with the corresponding period in 2021; and 3) the continued investment in the manufacturing equipment, digital operation and maintenance platform for the raw materials of power battery, and the active implementation of scientific research projects such as school-enterprise cooperation, resulting in an increase of approximately RMB68,069,000 in the research and development expenses as compared with the corresponding period in 2021.

Management Discussion and Analysis

Non-Hong Kong Financial Reporting Standards (“HKFRS”) Measures

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

EBITDA and Adjusted EBITDA

EBITDA for the six months ended 30 June 2022 amounted to approximately RMB400,647,000, representing an increase of approximately RMB176,393,000 from the EBITDA of RMB224,254,000 for the six months ended 30 June 2021. Excluding the listing expenses and share-based payments, adjusted EBITDA for the six months ended 30 June 2022 amounted to approximately RMB470,072,000, representing an increase of approximately RMB192,197,000, or approximately 69.2%, as compared with that of approximately RMB277,875,000 for the six months ended 30 June 2021.

	Six months ended 30 June	
	2022 RMB’000 (unaudited)	2021 RMB’000 (unaudited) (restated)
Net profit for the period	302,536	142,843
Add: Income tax expenses	38,692	24,743
Interest expenses	7,900	11,505
Depreciation	43,672	38,889
Amortisation	7,847	6,274
EBITDA for the period	400,647	224,254
Add: Share-based payments	69,425	33,775
Listing expenses	—	19,846
Adjusted EBITDA for the period	470,072	277,875

Trade and Other Receivables

The Group’s trade and other receivables increased by approximately 38.2% from approximately RMB921,456,000 as at 31 December 2021 to approximately RMB1,273,602,000 as at 30 June 2022, which was mainly due to 1) the increase in trade receivables as a result of the increase in revenue; 2) the increased balance of bills receivable due to the use of bank acceptance bills by certain customers to pay for sizable orders; and 3) an increase in the balance of prepayments resulting from the purchase of raw materials for more orders on hand.

Trade and Other Payables

The Group's trade and other payables increased by approximately 8.3% from approximately RMB1,094,663,000 as at 31 December 2021 to approximately RMB1,185,580,000 as at 30 June 2022, which was mainly due to the significant increase in trade payables resulting from the purchase of raw materials for the greatly increased orders on hand.

Contract Liabilities

The contract liabilities of the Group increased by approximately 21.2% from approximately RMB2,171,901,000 as at 31 December 2021 to approximately RMB2,633,074,000 as at 30 June 2022, mainly due to the significant increase in the number of new sales orders, and the high proportion of advance receipts for certain sizable orders.

Liquidity and Capital Resources

The balance of cash and cash equivalents of the Group decreased by approximately RMB65,330,000 from approximately RMB1,548,875,000 as at 31 December 2021 to approximately RMB1,483,545,000 as at 30 June 2022, representing a decrease of approximately 4.2%. On the premise of ensuring liquidity, the Group purchased short-term wealth management products issued by China Zheshang Bank Co., Ltd., Bank of China Limited and China CITIC Bank Corporation Limited, etc., with idle funds. The amount of wealth management products that did not expire as at 30 June 2022 was approximately RMB217,620,000.

The cash and cash equivalents held by the Group are mainly in currencies of RMB, USD, EUR, HKD and JPY. In order to hedge against the impact of foreign exchange rate fluctuations, the Group principally uses foreign exchange forward contract to reduce the foreign exchange risks in the ordinary course of business.

The liquidity of the Group mainly includes cash generated from operating activities, proceeds from the share offer and borrowings. The liquidity demand mainly includes business working capital and capital expenditures.

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

As at 30 June 2022, the total bank credit facilities of the Group are RMB550,000,000, US\$110,000,000, SEK300,000,000, HK\$93,000,000 and JPY19,400,000,000 (equivalent to approximately RMB2,517,676,000). The utilized bank credit facilities amounted to approximately RMB1,133,727,000, US\$63,449,000, HK\$93,000,000, JPY127,123,000 and EUR7,994,000 (equivalent to approximately RMB1,702,696,000), while the unused bank credit facilities amounted to approximately RMB814,980,000.

Borrowings and Gearing Ratio

The aggregated borrowings of the Group increased from approximately RMB370,002,000 as at 31 December 2021 to approximately RMB427,039,000 as at 30 June 2022, mainly due to the increase in bank borrowings to pay part of the amount required for engineering construction.

All borrowings were fixed-rate borrowings as at 30 June 2022, among which, RMB denominated borrowings amounted to approximately RMB347,506,000, which will be due within 1 year; and HKD denominated borrowings amounted to approximately RMB79,533,000, which will be due within 3 years.

Gearing ratio is calculated using interest-bearing borrowings divided by total equity. The gearing ratio of the Group decreased from approximately 18.4% as at 31 December 2021 to approximately 17.9% as at 30 June 2022, mainly due to the increase in reserve resulting from the Group's profit-making condition during the Reporting Period.



Management Discussion and Analysis

Charges on the Group's Assets

As at 30 June 2022, there were no charges on the Group's assets.

Contingent Liabilities

As at 30 June 2022, the Group did not have any significant contingent liabilities.

Issue of Equity Securities

During the six months ended 30 June 2022, the Company did not issue any equity securities (including securities convertible into equity securities) for cash.

Significant Investments, Acquisitions and Disposals

On 17 January 2022, the Group set up a new subsidiary, Morimatsu Biotechnology, in the PRC, the primary activities of which are the research and development of biological technology and the manufacturing and sales of related special equipment. As at 30 June 2022, the registered capital of Morimatsu Biotechnology was RMB50 million, and the Company indirectly held 72.25% of the equity interest of and the control over Morimatsu Biotechnology.

In order to promote the internationalization strategy and expand the North American market, on 28 February 2022, the Group entered into a share acquisition agreement with Morimatsu Holdings to acquire entire issued shares of common stock of Morimatsu Houston, for a total consideration of US\$1,295,000. For further details, please refer to the Company's announcement dated 28 February 2022.

On 24 May 2022, the Group established a new subsidiary, Mori-Biunion Technology, in the PRC, the principal activities of which are biotechnology consulting and services, as well as the production and sales of related products. As at 30 June 2022, the registered capital of Mori-Biunion Technology was RMB41.3 million, and the Company indirectly held 59.32% of the equity interest of and the control over Mori-Biunion Technology.

Save as disclosed above, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the Reporting Period, and the Group had no future plan for material investments or capital assets as at 30 June 2022.

Important Events After the Reporting Period

On 1 July 2022, Morimatsu Pharmaceutical Equipment, a subsidiary of the Group, and two other investors established Jiangsu Qunchuang Wisdom New Material Co., Ltd. (江蘇群創智慧新材料有限公司) in the PRC, which is mainly engaged in the research and development, manufacturing and sales of new membrane materials. The registered capital of the company was RMB300 million and the Company indirectly held 20% of its equity interest.

On 11 July 2022, Morimatsu Heavy Industry, a subsidiary of the Group, and three other investors established Mori-Union Microchannel Industrial Equipment Co., Ltd. (上海森聯微通工業裝備有限公司) in the PRC, which is mainly engaged in the research and development of microchannel reactors. The registered capital of the company was RMB10 million, and the Company indirectly held 36% of its equity interest.

Save as disclosed above, no important events affecting the Group have occurred since the end of the Reporting Period.

Employees and Remuneration Policies

As at 30 June 2022, the Group had a total of 3,610 employees, including 487 staff in research and development, accounting for more than 10% of the total number of employees. The Group has strictly complied with the relevant laws and regulations in the regions where it operates, has established sound remuneration and welfare systems and an effective performance assessment system, and determines the employees' salaries with consideration of their positions, experience and work performance. The Group's remuneration policies seek to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool.

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

Market Risk

The Group's market risk is mainly from the cyclical development of downstream markets and industries, such as traditional energy products, traditional chemical products, etc. However, the Group maintains diversification in markets and products, focuses on the exploration of emerging industries with potential, searches for opportunities for the rapid development of popular industries, and makes full use of the investment cycles of different industries and customers to ensure sustained and steady business growth.



Management Discussion and Analysis

Foreign Exchange Risk

The Group's revenue is mainly denominated in RMB, USD and EUR, and most of the raw materials and capital expenditure are denominated in RMB. 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.

Material Litigations and Arbitration Matters

As at 30 June 2022, the Company has no material litigations and arbitration matters.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in note 8 to the unaudited interim financial report.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Dividend

The Directors did not recommend the payment of interim dividend for the six months ended 30 June 2022.

Public Float

According to the publicly available information and to the best knowledge of Directors, the Company has maintained a public float of not less than 25% of the issued shares since the Listing Date up to the date of this report.

Use of Net Proceeds from the Global Offering

The Shares were listed on the Main Board 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 the purposes consistent with those set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus. As at 30 June 2022, the Group has utilised the Net Proceeds as the table below:

Purposes	Allocation of	Allocation of	Percentage of	Unutilised Net	Utilised Net	Unutilised Net Proceeds as at 30 June 2022 RMB'000	Expected timeline for the usage of the remaining Net Proceeds	Illustration
	actual Net Proceeds raised HKD'000	actual Net Proceeds raised RMB'000	of the Net Proceeds allocated %	Proceeds as at 31 December 2021 RMB'000	Proceeds during the Reporting Period RMB'000			
Improve production capacity and modular manufacturing capability	412,014	342,957	60.0%	211,855	204,917	6,938	By the end of 2022	Note 1
Improve and expand service and digital service capabilities	90,679	75,481	13.2%	75,481	11,312	64,169	By the end of 2023	
Continue to implement internationalization strategy	82,436	68,619	12.0%	54,671	2,994	51,677	By the end of 2023	Note 2
Investment in underlying research and development from 2021 to 2023	32,974	27,448	4.8%	24,505	10,185	14,320	By the end of 2023	
General working capital	68,587	57,091	10.0%	2,420	2,420	—	—	
Subtotal	686,690	571,596	100%	368,932	231,828	137,104		

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

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



Management Discussion and Analysis

PRE-IPO SHARE OPTION SCHEME

The following is a summary of 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 employees, Directors (being members of the Board who are not employees) for their contribution to, and continuing efforts to promote the interests of, the Company and for such other purposes as the Board may approve from time to time.

2) Maximum number of Shares to be allotted

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 132,380,000 Shares, representing approximately 12.44% of the issued share capital of the Company as at 30 June 2022.

3) Subscription price

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

4) Exercise period

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

- A. 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;
- B. 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;
- C. 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;
- D. 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;
- E. 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.

5) Term

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

6) 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. As at 30 June 2022, all share options had been granted under the Pre-IPO Share Option Scheme, and no share options had been cancelled. During the Reporting Period, details of the changes in the share options granted and the share options outstanding under the Pre-IPO Share Option Scheme are as follows:

Grantees	Number of underlying Shares	Number of Shares exercised during the Reporting Period	Exercise price (HKD)	Number of Shares outstanding during the Reporting Period	Number of Shares lapsed during the Reporting Period
Directors					
Matsuhisa Terumoto	16,810,000	—	—	16,810,000	—
Nishimatsu Koei	11,315,000	—	—	11,315,000	—
Kawashima Hiroataka	3,960,000	—	—	3,960,000	—
Hirazawa Jungo	3,400,000	—	—	3,400,000	—
Tang Weihua	7,920,000	55,000	0.0001	7,865,000	—
Sheng Ye	7,920,000	55,000	0.0001	7,865,000	—
Subtotal	51,325,000	110,000	—	51,215,000	—
Associates of Directors of the Company or its subsidiaries					
Matsuhisa Hideo	4,200,000	—	—	4,200,000	—
Other 20 employees	76,855,000	599,150	0.0001	73,425,850	2,830,000
Total	132,380,000	709,150	—	128,840,850	2,830,000

For share options exercised during the Reporting Period, the weighted average closing price on the date immediately prior to the exercise was HK\$7.74.



Management Discussion and Analysis

POST-IPO SHARE OPTION SCHEME

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

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 our Group who in the sole discretion of the Board has contributed to and/or will contribute to our Group) (the “**Eligible Persons**”) to subscribe for such number of Shares in accordance with the terms of the Post-IPO Share Option Scheme.

3) Maximum number of Shares

- A. The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.
- B. Subject to paragraphs 3) A., D. and E., at the time of adoption by our Company of the Post-IPO Share Option Scheme or any new share option scheme (the “**New Scheme**”), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme, the New Scheme and all schemes existing at such time (the “**Existing Schemes**”) of our Company must not in aggregate exceed 10% of the total number of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”).
- C. For the purposes of calculating the Scheme Mandate Limit under paragraph 3) B., 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.
- D. The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:
 - the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as at the date of Shareholders’ approval of the refreshment of the Scheme Mandate Limit;
 - options previously granted under any Existing Schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the refreshed limit; and

- a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules.
- E. Our Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:
- the options were granted to Eligible Persons specifically identified by the Company before such approval is sought in accordance to the terms of the Post-IPO Share Option Scheme; and
 - a circular in relation to such grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules and other applicable laws and regulations in accordance to the terms of the Post-IPO Share Option Scheme.

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:

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

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.



Management Discussion and Analysis

6) Granting options to related persons

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

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 our Company to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement. The period which no option may be granted will cover any period of delay in the publication of results announcement.

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 our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Post-IPO Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

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

No option has been granted or agreed to be granted by the Company under the Post-IPO Share Option Scheme during the period from the Listing Date to 30 June 2022.



Supplemental Information

CORPORATE GOVERNANCE CODE

Throughout the Interim Period, the Company has adopted and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors after the successful listing. It is believed that they have complied with the Model Code at all times during the Interim Period.

DISCLOSURE OF DIRECTORS’ INFORMATION

According to Rule 13.51B(1) of the Listing Rules, the changes in Directors’ information are as follows:

Since September 2012, Kanno Shinichiro, an independent non-executive Director, 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.

On 17 January 2022, Tang Weihua, an executive Director, was appointed as chairman by Morimatsu Biotechnology. In March 2022, he was elected as a council member by the Shanghai Producer Services Promotion Association. On 16 May 2022, he was elected as a director of Mori-Biounion Technology.

On 5 May 2022, Hirazawa Jungo, an executive Director, was elected as a director by Morimatsu Houston. On 1 June 2022, he was elected as a director by Morimatsu Holdings.

Save as disclose above, there was no other changes in Director’s information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Reporting Period.

AUDIT COMMITTEE

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

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

As at 30 June 2022, to the knowledge of the Directors and chief executives of the Company, the interests and short positions of the substantial shareholders and other persons (excluding Directors, supervisors and chief executives of the Company) in the Company's shares and underlying shares as recorded in the register maintained pursuant to Section 336 of the SFO are as follows:

Name of major shareholders	Capacity	Number of Shareholdings	Approximate Percentage (%) of all issued shares ²
Morimatsu Holdings	Beneficial owner	750,000,000 (L) ¹	70.49%
Morimatsu Group ³	Interest in a controlled corporation	750,000,000 (L)	70.49%
Mr. Matsuhisa Terumoto ⁴	Interest in a controlled corporation	750,000,000 (L)	70.49%
	Beneficial owner	16,810,000 (L)	1.58%

Notes:

- The letter "L" denotes the person's long position in the Shares.
- The percentage is calculated based on the total number of 1,063,976,000 ordinary shares issued after the completion of issuance of additional shares to Futu Trustee Limited (富途信託有限公司) on 2 June 2022.
- Morimatsu Holdings is wholly owned by Morimatsu Group. Mr. Matsuhisa Terumoto holds 80% of the voting shares of Morimatsu Group, and is therefore deemed to be interested in the shares held by Morimatsu Holdings.
- 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 30 June 2022, there is no other person (excluding directors, supervisors and chief executives of the Company or their respective associates) has interests or short positions as recorded in the register maintained by the Company pursuant to Section 336 of the SFO in the Shares and underlying Shares.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES

As at 30 June 2022, the interests and short positions of the directors, supervisors, chief executives of the Company or their associates in the Shares, the underlying Shares or bonds of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange in accordance with Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed or to have under such provisions of the SFO), or the interests or short positions to be entered in the register required to be kept under Section 352 of the SFO, or to be notified separately to the Company and the Stock Exchange in accordance with the Model Code contained in the Listing Rules were as follows:

1) Long position in shares of the Company

Name of directors	Capacity/Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage of issued share capital as at 30 June 2022 ²
Tang Weihua	Beneficial owner	45,048	0.01%
	Beneficial owner ¹	1,529,000	0.14%
Sheng Ye	Beneficial owner	45,048	0.01%
	Beneficial owner ¹	1,529,000	0.14%
Nishimatsu Koei	Beneficial owner ¹	2,263,000	0.21%
Kawashima Hiroataka	Beneficial owner ¹	792,000	0.07%
Matsuhisa Terumoto	Beneficial owner ¹	16,810,000	1.58%
Hirazawa Jungo	Beneficial owner ¹	680,000	0.06%

Notes:

- Interest in the share options granted under the Pre-IPO Share Option Scheme.
- The calculation is based on the total number of 1,063,976,000 Shares in issue as at 30 June 2022.

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

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

Notes:

- 1 Jinwen Consultation's holds 8.75% equity interest in Morimatsu Biotechnology. Tang Weihua, as a limited partner, holds 33.62% of the shares in Jinwen Consultation. Jinliang Technology is the general partner of Jinwen Consultation, and Tang Weihua, as a limited partner, holds 29% of equity interest in Jinliang Technology. Therefore, Tang Weihua is deemed to be interested in the shares held by Jinwen Consultation in Morimatsu Biotechnology.
- 2 Mori-Biounion Technology is a non-wholly owned subsidiary of Morimatsu Biotechnology, which is held as to 59.32% by Morimatsu Biotechnology. Therefore, Tang Weihua is deemed to be interested in Mori-Biounion Technology.

Save as disclosed above, as at 30 June 2022, no directors, supervisors, chief executives of the Company or their associates own or are deemed to own interests or short positions 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.

Consolidated Statements of Profit or Loss

For the six months ended 30 June 2022 – unaudited

	Note	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated) (Note)
Revenue	3	2,964,865	1,855,673
Cost of sales		(2,176,441)	(1,369,770)
Gross profit		788,424	485,903
Other income	4	46,149	4,485
Selling and marketing expenses		(95,437)	(44,106)
General and administrative expenses		(228,481)	(184,874)
Research and development expenses		(145,505)	(77,436)
Impairment losses on trade receivables and contract assets		(14,876)	(4,881)
Profit from operations		350,274	179,091
Finance costs	5(a)	(7,900)	(11,505)
Share of results of joint venture		(1,146)	—
Profit before taxation	5	341,228	167,586
Income tax	6	(38,692)	(24,743)
Profit for the period		302,536	142,843
Attributable to:			
Equity shareholders of the Company		302,672	142,843
Non-controlling interests		(136)	—
Profit for the period		302,536	142,843
Earnings per share	7		
Basic (RMB)		0.29	0.19
Diluted (RMB)		0.28	0.18

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

The notes on pages 51 to 76 form part of this interim financial report.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022 – unaudited

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated) (Note)
Profit for the period	302,536	142,843
Other comprehensive income for the period		
Item that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	2,485	868
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	(371)	(2,450)
Other comprehensive income for the period	2,114	(1,582)
Total comprehensive income for the period	304,650	141,261
Attributable to:		
Equity shareholders of the Company	304,786	141,261
Non-controlling interests	(136)	—
Total comprehensive income for the period	304,650	141,261

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

The notes on pages 51 to 76 form part of this interim financial report.

Consolidated Statements of Financial Position

At 30 June 2022 – unaudited

	Note	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated) (Note)
Non-current assets			
Property, plant and equipment	8	1,300,596	1,227,021
Right-of-use assets	9	116,426	106,758
Intangible assets		36,683	33,702
Interest in joint venture		9,731	10,878
Deferred tax assets		3,076	—
Other non-current assets	10	270,851	15,975
		1,737,363	1,394,334
Current assets			
Inventories	11	1,372,395	1,229,633
Contract assets		621,512	609,515
Trade and other receivables	12	1,273,602	921,456
Financial assets measured at fair value through profit or loss ("FVPL")	16	223,146	695
Cash and cash equivalents	13	1,483,545	1,548,875
		4,974,200	4,310,174
Current liabilities			
Trade and other payables	14	1,185,580	1,094,663
Contract liabilities		2,633,074	2,171,901
Interest-bearing borrowings		347,506	370,002
Financial liabilities measured at fair value through profit or loss ("FVPL")	16	9,638	—
Lease liabilities		5,138	2,528
Current taxation		38,608	33,881
Provisions		21,086	17,362
		4,240,630	3,690,337
Net current assets		733,570	619,837
Total assets less current liabilities		2,470,933	2,014,171

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

The notes on pages 51 to 76 form part of this interim financial report.

Consolidated Statements of Financial Position

At 30 June 2022 – unaudited

	Note	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated) (Note)
Non-current liabilities			
Interest-bearing borrowings		79,533	—
Lease liabilities		9,114	1,883
Deferred tax liabilities		72	4,126
Deferred income		330	353
		89,049	6,362
Net assets		2,381,884	2,007,809
Capital and reserves			
Share capital	15(b)	573,396	571,769
Reserves		1,808,624	1,436,040
Total equity attributable to equity shareholders of the Company		2,382,020	2,007,809
Non-controlling interests		(136)	—
Total equity		2,381,884	2,007,809

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

The notes on pages 51 to 76 form part of this interim financial report.

Consolidated Statements of Changes in Equity

For the six months ended 30 June 2022 – unaudited

	Note	Attributable to equity shareholders of the Company						Total equity RMB'000
		Share capital RMB'000	Capital Reserve RMB'000	Other reserve RMB'000 Note 15(d)	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	
Balance at 1 January 2021		173	433,141	—	31,381	3,175	530,442	998,312
Adjustments arising from adoption of merger accounting		—	—	8,837	—	—	(10,122)	(1,285)
As restated		173	433,141	8,837	31,381	3,175	520,320	997,027
Changes in equity for the six months ended 30 June 2021:								
Profit for the period (restated)		—	—	—	—	—	142,843	142,843
Other comprehensive income for the period (restated)		—	—	—	—	(1,582)	—	(1,582)
Total comprehensive income for the period (restated)		—	—	—	—	(1,582)	142,843	141,261
Issuance of ordinary shares upon initial public offering	15(b)	493,980	—	—	—	—	—	493,980
Equity-settled share-based payment	15(c)	—	33,775	—	—	—	—	33,775
Balance at 30 June 2021 (restated)		494,153	466,916	8,837	31,381	1,593	663,163	1,666,043
Balance at 1 July 2021 as restated		494,153	466,916	8,837	31,381	1,593	663,163	1,666,043
Changes in equity for the six months ended 31 December 2021:								
Profit for the period (restated)		—	—	—	—	—	238,995	238,995
Other comprehensive income for the period (restated)		—	—	—	—	(8,621)	—	(8,621)
Total comprehensive income for the period (restated)		—	—	—	—	(8,621)	238,995	230,374
Appropriation to PRC statutory reserve		—	—	—	6,490	—	(6,490)	—
Issuance of ordinary shares upon initial public offering		77,616	—	—	—	—	—	77,616
Equity settled share-based payment	15(c)	—	33,776	—	—	—	—	33,776
Balance at 31 December 2021 (restated)		571,769	500,692	8,837	37,871	(7,028)	895,668	2,007,809

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

The notes on pages 51 to 76 form part of this interim financial report.

Consolidated Statements of Changes in Equity

For the six months ended 30 June 2022 – unaudited

Note	Attributable to equity shareholders of the Company										
	Share capital	Treasury stock	Capital reserve	Other reserve	PRC			Retained earnings	Non-controlling interest	Total equity	
					Statutory reserve	Exchange reserve	Other reserve				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2022 as restated	571,769	—	500,692	8,837	37,871	(7,028)	895,668	2,007,809	—	2,007,809	
Changes in equity for the six months ended 30 June 2022:											
Profit for the period	—	—	—	—	—	—	302,672	302,672	(136)	302,536	
Other comprehensive income for the period	—	—	—	—	—	2,114	—	2,114	—	2,114	
Total comprehensive income for the period	—	—	—	—	—	2,114	302,672	304,786	(136)	304,650	
Appropriation to PRC statutory reserve	—	—	—	—	4,299	—	(4,299)	—	—	—	
Equity settled share-based payment	15(c)	—	—	69,425	—	—	—	69,425	—	69,425	
Issuance of ordinary shares to the Company	15(b)	2	(2)	—	—	—	—	—	—	—	
Exercise of share option	15(c)	1,625	—*	(1,625)	—	—	—	—	—	—	
Balance at 30 June 2022	573,396	(2)	568,492	8,837	42,170	(4,914)	1,194,041	2,382,020	(136)	2,381,884	

* The balances represent amounts less than RMB1,000.

The notes on pages 51 to 76 form part of this interim financial report.

Condensed Consolidated Cash Flow Statements

For the six months ended 30 June 2022 – unaudited

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
		(Note)
Operating activities:		
Cash generated from operations	533,713	119,773
Income tax paid	(41,068)	(13,308)
Net cash generated from operating activities	492,645	106,465
Investing activities:		
Payment for the purchase of long-term assets	(410,866)	(208,391)
Net cash payment for acquisition of financial assets measured at FVPL	(212,518)	—
Acquisition of subsidiary, net of cash acquired	(8,187)	—
Proceeds from sale of property, plant and equipment	197	387
Net cash received from disposal of financial assets measured at FVPL	—	1,148
Interest received	2,972	373
Net cash used in investing activities	(628,402)	(206,483)
Financing activities:		
Capital element of lease rentals paid	(3,285)	(2,590)
Proceeds from bank loans	81,236	137,333
Repayment of bank loans	(25,000)	—
Proceeds from issue of shares	—	493,980
Interest element of lease rentals paid	(58)	(115)
Interest paid	(7,869)	(11,461)
Dividend paid	—	(30,000)
Net cash used in financing activities	45,024	587,147
Effect of foreign exchange rate changes on cash and cash equivalents	25,403	(10,923)
Net increase in cash and cash equivalents	(65,330)	476,206
Cash and cash equivalents at 1 January	1,548,875	427,121
Cash and cash equivalents at 30 June	1,483,545	903,327

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

The notes on pages 51 to 76 form part of this interim financial report.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION

(a) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 18 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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



Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION *(Continued)*

(b) Merger accounting and restatements

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

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

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

The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income include the results of combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income also take into account the profit or loss attributable to the non-controlling interest recorded in the consolidated financial statements of the controlling party. The effects of all transactions between the combining entities or businesses, whether occurring before or after the common combination, are eliminated. The opening balance at 1 January 2021 have been restated, with consequential adjustments to comparatives for the year ended 31 December 2021 and for the six months ended 30 June 2021.

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

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION (Continued)

(b) Merger accounting and restatements (Continued)

The effects of the application of merger accounting on the consolidated statement of profit or loss for the six months ended 30 June 2021 are as follows:

	Note	For the six months ended 30 June 2021 as previously reported RMB'000 (unaudited)	Adjustments for the combination using merger accounting RMB'000 (unaudited)	For the six months ended 30 June 2021 as restated RMB'000 (unaudited)
Revenue	3	1,852,632	3,041	1,855,673
Cost of sales		(1,369,605)	(165)	(1,369,770)
Gross profit		483,027	2,876	485,903
Other income	4	4,485	—	4,485
Selling and marketing expenses		(44,071)	(35)	(44,106)
General and administrative expenses		(181,274)	(3,600)	(184,874)
Research and development expenses		(77,436)	—	(77,436)
Impairment losses on trade receivables and contract assets		(4,881)	—	(4,881)
Profit from operations		179,850	(759)	179,091
Finance costs	5(a)	(11,576)	71	(11,505)
Profit before taxation	5	168,274	(688)	167,586
Income tax	6	(24,743)	—	(24,743)
Profit for the period		143,531	(688)	142,843
Attributable to:				
Equity shareholders of the Company		143,531	(688)	142,843
Profit for the period		143,531	(688)	142,843
Earnings per share	7			
Basic (RMB)		0.19	—	0.19
Diluted (RMB)		0.18	—	0.18

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION (Continued)

(b) Merger accounting and restatements (Continued)

	For the six months ended 30 June 2021 as previously reported	Adjustments for the combination using merger accounting	For the six months ended 30 June 2021 as restated
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Profit for the period	143,531	(688)	142,843
Other comprehensive income for the period			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of the Company	868	—	868
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland China	(1,422)	(1,028)	(2,450)
Other comprehensive income for the period	(554)	(1,028)	(1,582)
Total comprehensive income for the period	142,977	(1,716)	141,261
Attributable to:			
Equity shareholders of the Company	142,977	(1,716)	141,261
Total comprehensive income for the period	142,977	(1,716)	141,261

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION (Continued)

(b) Merger accounting and restatements (Continued)

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

	Note	As at 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000 (unaudited)	As at 31 December 2021 as restated RMB'000 (unaudited)
Non-current assets				
Property, plant and equipment	8	1,226,951	70	1,227,021
Right-of-use assets	9	106,225	533	106,758
Intangible assets		33,702	—	33,702
Interest in joint venture		10,878	—	10,878
Other non-current assets	10	15,967	8	15,975
		1,393,723	611	1,394,334
Current assets				
Inventories	11	1,229,633	—	1,229,633
Contract assets		609,515	—	609,515
Trade and other receivables	12	916,679	4,777	921,456
Financial assets measured at fair value through profit or loss ("FVPL")	16	695	—	695
Cash and cash equivalents	13	1,545,079	3,796	1,548,875
		4,301,601	8,573	4,310,174
Current liabilities				
Trade and other payables	14	1,085,560	9,103	1,094,663
Contract liabilities		2,171,901	—	2,171,901
Interest-bearing borrowings		370,002	—	370,002
Lease liabilities		2,338	190	2,528
Current taxation		33,854	27	33,881
Provisions		17,362	—	17,362
		3,681,017	9,320	3,690,337
Net current assets		620,584	(747)	619,837
Total assets less current liabilities		2,014,307	(136)	2,014,171

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION (Continued)

(b) Merger accounting and restatements (Continued)

	Note	As at 31 December 2021 as previously reported RMB'000	Adjustments for the combination using merger accounting RMB'000 (unaudited)	As at 31 December 2021 as restated RMB'000 (unaudited)
Non-current liabilities				
Lease liabilities		1,536	347	1,883
Deferred tax liabilities		4,126	—	4,126
Deferred income		353	—	353
		6,015	347	6,362
Net assets				
		2,008,292	(483)	2,007,809
Capital and reserves				
Share capital	15(b)	571,769	—	571,769
Reserves		1,436,523	(483)	1,436,040
Total equity attributable to equity shareholders of the Company		2,008,292	(483)	2,007,809
Non-controlling interests		—	—	—
Total equity		2,008,292	(483)	2,007,809

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

1 BASIS OF PREPARATION (Continued)

(b) Merger accounting and restatements (Continued)

The effects of the application of merger accounting on the consolidated statement of cash flows for the six months ended 30 June 2021 are as follows:

	For the six months ended 30 June 2021 as previously reported	Adjustments for the combination using merger accounting	For the six months ended 30 June 2021 as restated
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Operating activities:			
Cash generated from operations	117,903	1,870	119,773
Income tax paid	(13,301)	(7)	(13,308)
Net cash generated from operating activities	104,602	1,863	106,465
Investing activities:			
Payment for the purchase of long-term assets	(208,391)	—	(208,391)
Proceeds from sale of property, plant and equipment	387	—	387
Net cash received from disposal of financial assets measured at FVPL	1,148	—	1,148
Interest received	373	—	373
Net cash used in investing activities	(206,483)	—	(206,483)
Financing activities:			
Capital element of lease rentals paid	(2,590)	—	(2,590)
Proceeds from bank loans	137,333	—	137,333
Proceeds from issue of shares	493,980	—	493,980
Interest element of lease rentals paid	(115)	—	(115)
Interest paid	(11,461)	—	(11,461)
Dividend paid	(30,000)	—	(30,000)
Net cash used in financing activities	587,147	—	587,147
Effect of foreign exchange rate changes on cash and cash equivalents	(10,857)	(66)	(10,923)
Net increase in cash and cash equivalents	474,409	1,797	476,206
Cash and cash equivalents at 1 January	424,428	2,693	427,121
Cash and cash equivalents at 30 June	898,837	4,490	903,327



Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by HKICPA to this interim financial report for the current accounting period:

- Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included incremental costs and allocation of other costs when determining whether a contract was onerous. The amendments do not have a material impact on these financial statements.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

(i) Disaggregation of revenue

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— traditional pressure equipment	1,364,733	1,104,762
— reactor	612,396	414,883
— heat exchanger	324,659	220,716
— tank	221,852	338,071
— tower	205,826	131,092
— modular pressure equipment	1,534,088	701,584
— others*	14,623	9,917
Sales of products	2,913,444	1,816,263
— Pressure equipment design, validation, and maintenance service	51,421	39,410
Service	51,421	39,410
Revenue of operations	2,964,865	1,855,673

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

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

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

(i) Disaggregation of revenue (Continued)

The Group's customer base is diversified and includes one customer only with whom transactions have exceeded 10% of the Group's revenues of six months ended 30 June 2022. Revenues from those customers during the six months ended 30 June 2022 and 2021 are set out below:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Customer A	*	186,318
Customer B	472,232	*

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

(ii) Geographic information

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

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Mainland China	1,656,474	1,354,158
North America	97,044	62,798
Asia (excluding mainland China)	282,045	111,038
Europe	405,055	157,051
Africa	482,698	16,714
Others (Note)	41,549	153,914
Total	2,964,865	1,855,673

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

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

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

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

4 OTHER INCOME/(LOSS)

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Government grants (i)	2,195	2,851
Interest income	2,972	373
Net realised gains on financial assets measured at fair value through profit or loss	5,058	1,148
Net foreign exchange gains/(losses)	39,958	(1,344)
Changes in fair value of financial assets and liabilities	(4,763)	80
Net loss on disposal of property, plant and equipment	—	(239)
Others	729	1,616
	46,149	4,485

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

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited) (restated)
(a) Finance costs:		
Interest on interest-bearing borrowings	7,869	11,461
Interest on lease liabilities	31	44
	7,900	11,505
(b) Staff costs:		
Salaries, wages and other benefits	390,275	301,476
Equity-settled share-based payment expenses (Note 15(c))	69,425	33,775
Contributions to defined contribution retirement plans (i)	39,983	31,406
	499,683	366,657

- (i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contributes 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.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
(c) Other items:		
Amortisation of intangible assets	7,847	6,274
Depreciation charge		
— owned property, plant and equipment	40,187	36,561
— right-of-use assets	3,485	2,328
Research and development costs (i)	145,505	77,436
Increase in provisions	6,173	1,412
Cost of inventories (ii)	2,176,441	1,370,421
Inventory write-down and losses net of reversals (Note 11)	4,532	7,541

- (i) Research and development costs included staff costs of RMB73,046,000 (six months ended 30 June 2021: RMB52,479,000), depreciation and amortisation expenses of RMB5,077,000 (six months ended 30 June 2021: RMB2,898,000) for the six months ended 30 June 2022, 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 RMB262,693,000 (six months ended 30 June 2021: RMB222,887,000), depreciation and amortisation expenses of RMB30,550,000 (six months ended 30 June 2021: RMB29,978,000) for the six months ended 30 June 2022, which are also included in the respective total amounts disclosed separately above or in Note 5(b).

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Provision for the year	45,822	27,275
Deferred tax:		
Origination and reversal of temporary differences	(7,130)	(2,532)
Actual tax expense	38,692	24,743

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

Pursuant to the income tax rules and regulations of Hong Kong, the Company and the Group's subsidiary in Hong Kong was subject to the Hong Kong Profits Tax at a rate of 16.5% for the six months ended 30 June 2022 and 2021. No provision for Hong Kong Profits Tax was made for the company incorporated in Hong Kong as the company did not have income subject to Hong Kong Profits Tax for the six months ended 30 June 2022 and 2021.

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% for the six months ended 30 June 2022 and 2021.

Pursuant to the income tax rules and regulations of the United States, Pharmadule Morimatsu Inc and Morimatsu Houston Corporation were subject to the United States Corporate Tax at a rate of 21% for the six months ended 30 June 2022 and 2021, which represents federal income tax at a rate determined by income ranges.

Pursuant to the income tax rules and regulations of India, Pharmadule Engineering India Private Limited was subject to the Indian Corporate Tax at a rate of 25% for the six months ended 30 June 2022 and 2021. No provision for India Corporate Tax was made for Pharmadule Engineering India Private Limited as the company did not have income subject to India Corporate Tax for the six months ended 30 June 2022 and 2021.

Pursuant to the income tax rules and regulations of Japan, Morimatsu Technology and Service Company Limited was subject to the Japan Corporate Tax at a rate of 33.58% and 33.28% for the six months ended 30 June 2022 and 2021. No provision for Japan Corporate Tax was made for Morimatsu Technology and Service Company Limited as the company did not have income subject to Japan Corporate Tax for the six months ended 30 June 2022 and 2021.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS (Continued)

(a) (Continued)

(i) (Continued)

Pursuant to the income tax rules and regulations of Italy, Morimatsu Italy S.R.L. was subject to the Italy Corporate Tax at a rate of 24% for the six months ended 30 June 2022 and 2021. No provision for Italy Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italy Corporate Tax for the six months ended 30 June 2022 and 2021.

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

	Applicable preferential tax rate	Period
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("Morimatsu Pharmaceutical Equipment") (上海森松製藥設備工程有限公司)*	15%	2021–2022
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("Morimatsu Heavy Industry") (森松(江蘇)重工有限公司)*	15%	2021–2022

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

(iii) Under the CIT Law of the PRC and its relevant regulation, qualified research and development expenses are subject to income tax deduction at 200% on the amount actually incurred for each of the year ended 31 December 2022 and 2021.

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

(v) Under PRC CIT law, the deductible tax losses expire within 5 years from the year when such losses were incurred. It mainly arose from the Morimatsu (China) Investment Co., Ltd. whose principal activity was investment holding.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB302,672,000 (six months ended 30 June 2021: RMB142,843,000) and the weighted average of 1,037,718,000 ordinary shares (2021: 752,055,000 shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB302,672,000 (six months ended 30 June 2021: RMB142,843,000) and the weighted average number of ordinary shares of 1,091,917,000 (2021: 784,355,000 shares).

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired items of plant and buildings, machinery and equipment, office and other equipment, motor vehicles and construction in progress with a cost of RMB113,959,000 (six months ended 30 June 2021: RMB185,176,000). Items of machinery and equipment, office and other equipment, motor vehicles with a net book value of RMB197,000 were disposed of during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB366,000), resulting in a loss on disposal of nil (six months ended 30 June 2021: RMB239,000).

9 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for leasehold plant and buildings, and therefore recognised the additions to right-of-use assets of RMB13,990,000 (six months ended 30 June 2021: RMB3,417,000).

10 OTHER NON-CURRENT ASSETS

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Prepayments for land use rights	49,483	—
Prepayments for property, plant and equipment	220,293	14,860
Long-term deferred expense	1,075	1,115
	270,851	15,975

11 INVENTORIES

During the six months ended 30 June 2022, RMB124,000 (six months ended 30 June 2021: RMB1,103,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of reversal of a write-down of inventories to the estimated net realisable value. This reversal arose due to an increase in the estimated net realisable value of certain comprehensive pressure equipment as a result of increase of market price.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

12 TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Bills receivable	142,262	83,398
Trade debtors net of loss allowance	752,840	609,562
Other debtors	50,516	23,285
Financial assets measured at amortised cost	945,618	716,245
Prepayments	327,984	205,211
	1,273,602	921,456

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

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Within 3 months	366,548	405,541
More than 3 months but less than 1 year	322,672	144,283
More than 1 year but less than 2 years	57,325	57,482
More than 2 years	6,295	2,256
	752,840	609,562

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

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

13 CASH AND CASH EQUIVALENTS

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Deposits with banks	63,997	43,101
Cash at banks and on hand	1,419,548	1,505,774
	1,483,545	1,548,875

As at the end of each reporting period, cash and cash equivalents situated in Mainland China amounted to RMB1,249,953,000 (2021: 1,138,742,000). Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control.

14 TRADE AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Bills payable	6,255	46,319
Trade payables	911,830	718,425
Other payables and accruals	267,495	329,919
	1,185,580	1,094,663

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

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Within 3 months	735,506	561,591
More than 3 months but less than 6 months	128,769	99,990
More than 6 months but less than 12 months	35,624	40,214
More than 1 year but less than 2 years	5,584	12,611
More than 2 years	6,347	4,019
	911,830	718,425

15 CAPITAL AND RESERVES

(a) Dividend

The Board has resolved not to propose the payment of any interim dividend for the six months ended 30 June 2022 (30 June 2021: nil).

(b) Share capital

Issuance of ordinary shares to the Company

The Company issued 26,476,000 ordinary shares for exercise of share option on 2 June 2022.

(c) Equity settled share-based transactions

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

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

The Group recognised an expense of RMB33,860,000 in the six months period ended 30 June 2022 (six months ended 30 June 2021: RMB33,775,000), 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.

Options to subscribe for an aggregate of 709,150 shares were exercised on and after 28 June 2022.

The Group has a Restricted Share Units Scheme (the "RSU Scheme") which was adopted on 15 December 2021 whereby 29,459,700 restricted share units ("RSU") were granted to 149 qualified employees on 5 January 2022. The option vests after one year from 5 January 2022 and are then exercisable within a period of three years. Each option 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 RMB35,565,000 in the six months period ended 30 June 2022 (six months ended 30 June 2021: nil), which is by reference to the fair value of the options on the vesting date, and will recognise relevant cost for services received over the remaining vesting periods, in administrative expenses and capital reserve, respectively.

No RSU options were exercised during the six months ended 30 June 2022.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

15 CAPITAL AND RESERVES (Continued)

(d) Other reserve

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

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurements as at 30 June 2022 categorised ratio			
	Fair value at 30 June 2022 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
Financial Assets:				
Monetary fund	217,620	—	217,620	—
Forward exchange contracts	5,526	—	5,526	—
Financial Liabilities :				
Forward exchange contracts	(9,638)	—	(9,638)	—
Total	213,508	—	213,508	—

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised ratio		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
Financial Assets:				
Forward exchange contracts	695	—	695	—
Total	695	—	695	—

(ii) 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 the 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 fund at the end of the reporting period, taking into the interest rates signed in the contracts with the bank.

(b) 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 30 June 2022 and 31 December 2021.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

17 COMMITMENTS

(a) Capital Commitments

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000
Authorised but not contracted for acquisition of property, machinery and equipment	154,620	899,819
Contracted for but not provided for acquisition of property, machinery and equipment	612,106	158,638
	766,726	1,058,457

(b) Operating lease commitments

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000
Within 1 year	26,232	1,344

18 MATERIAL RELATED PARTY TRANSACTIONS**(a) Name and relationship with related parties**

During the 30 June 2022 and 2021, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Morimatsu Group Co., Ltd. (Prior named as "Morimatsu Holdings Co., Ltd.")	Controlling Shareholder
Morimatsu Holdings Co., Ltd. (Prior named as "Morimatsu Industry Company Limited")	Parent Company
Shanghai Morimatsu Chemical Equipment Co., Ltd.	Fellow subsidiary
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	Fellow subsidiary
Terumoto Matsuhisa 松久晃基	Members of director and key management personnel
Jungo Hirazawa 平澤準悟	Members of director and key management personnel
Hiroataka Kawashima 川島宏貴	Members of director and key management personnel
Koei Nishimatsu 西松江英	Members of director and key management personnel
Wei Hua Tang 湯衛華	Members of director and key management personnel
Ye Sheng 盛擘	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.

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

18 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Rental expense		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	22,241	24,644
	22,241	24,644
Outsourcing service income		
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	—	2,782
Morimatsu Holdings Co., Ltd.	255	276
	255	3,058
Acquisition is treated as a combination of businesses under common control		
Morimatsu Holdings Co., Ltd.	8,187	—
	8,187	—

Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

18 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Related party balances

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (restated)
Amounts due to (trade):		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	—	59,328
	—	59,328
Trade payables	—	59,328
	—	59,328
Amounts due to (non-trade):		
Shanghai Morimatsu Chemical Equipment Co., Ltd.	24,242	—
	24,242	—
Amounts due from (trade):		
Shanghai Morimatsu Solar Technology Equipment Co., Ltd.	—	4,744
Morimatsu Holdings Co., Ltd.	249	302
	249	5,046
Trade debtors net of loss allowance	249	5,046
	249	5,046



Notes to Unaudited Interim Financial Report

(Expressed in Renminbi yuan unless otherwise indicated)

19 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Jiangsu Qunchuang Wisdom New Material Co., Ltd. (江蘇群創智慧新材料有限公司) was established on 1 July 2022 by Morimatsu Pharmaceutical Equipment with two other investors in China. The registered capital of the company is RMB 300 million. Morimatsu Pharmaceutical Equipment holds 20% equity interest of the company. Jiangsu Qunchuang Wisdom New Material Co., Ltd. is mainly engaged in the research and development, manufacturing and sales of new membrane materials. The capital of RMB 20 million from Morimatsu Pharmaceutical Equipment has been injected into the company.

Mori-Union Microchannel Industrial Equipment Co., Ltd. (上海森聯微通工業裝備有限公司) was established on 11 July 2022 by Morimatsu Heavy Industry with three other investors in China. The registered capital of the company is RMB10 million. Morimatsu Heavy Industry holds 36% equity interest of the company. Mori-Union Microchannel Industrial Equipment Co., Ltd. is mainly engaged in the research and development of microchannel reactors. No capital has been injected into the company.

No adjustment has been made in this interim financial report in this regard.