

Fastställelseintyg / Certification of conformity

Företag: Pharmadule Morimatsu AB
Organisationsnummer: 556846-4910

Undertecknad styrelseledamot i Pharmadule Morimatsu AB intygar härmed dels att denna kopia av årsredovisningen överensstämmer med originalet, dels att resultat- och balansräkningen fastställts på årsstämma 2024-06-10. Stämman beslutade också att godkänna styrelsens förslag till resultatdisposition.

I, the undersigned board member hereby certify that this copy of the annual report conforms with the original and that the result- and balance sheets have been approved at the annual meeting on June 10th 2024. The annual meeting also approved the board's proposed disposal of the result of the year.

Stockholm, den 10/6, 2024 / Stockholm June 10th, 2024



Halfang Zhang
Styrelseledamot/ Board member

Årsredovisning för
Annual Report of

Pharmadule Morimatsu AB

556846-4910

Räkenskapsåret
Fiscal year

2023-01-01 - 2023-12-31

Förvaltningsberättelse

Report

Styrelsen och verkställande direktören för Pharmadule Morimatsu AB, 556846-4910 får härmed avge årsredovisning för räkenskapsåret 2023-01-01 - 2023-12-31.

The Board and the CEO of Pharmadule Morimatsu AB, 556846-4910 is hereby submitting the annual report for the fiscal year 2023-01-01 - 2023-12-31.

Verksamhetens art och inriktning

The business type and direction

Bolagets huvudsakliga verksamhet är förprojektering av modulära produktionsanläggningar för de farmaceutiska, biotekniska och konsumentvaruindustrierna. I verksamheten ingår också projektledning och kvalitetssäkring av tillverkning och byggnation av dylika modulära produktionsanläggningar. Bolaget erbjuder också processutrustning, validerings- och regulatoriska tjänster till relevant industri. Bolaget har sitt säte i Stockholm.

The main business activities of the company are design and engineering of modular manufacturing facilities for the pharmaceutical, biopharmaceutical and fast-moving consumer goods industries. The businesses also include project management and quality assurance projects during fabrication and construction of said manufacturing facilities.

The company also provides process skids, validation and regulatory support services to the applicable industry. The company's place of business is Stockholm, Sweden.

Koncernförhållande

Corporate Relationship

Bolaget är ett helägt till Morimatsu International Holdings Company., Ltd. med säte i Hong Kong. Bolaget är moderbolag till Pharmadule Morimatsu Inc., New Jersey, USA, och Morimatsu Italy S.r.l, i Milano, Italien, med stöd av ÅRL 7:2 a upprättas övergripande koncernredovisning av: Morimatsu International Holdings Company., Ltd, Stock code 2155, med säte i Hong Kong.

The company is a fully owned subsidiary of Morimatsu International Holdings Company Co., Ltd. located in Hong Kong. The company is the parent company to Pharmadule Morimatsu Inc., New Jersey, USA, and Morimatsu Italy S.r.l, Milan, Italy, based on ÅRL 7:2 a overall consolidated accounts are prepared by: Morimatsu International Holdings Company., Ltd, Stock code 2155, based in Hong Kong.

Hållbarhetsinformation Sustainability Information

Enligt ÄRL 6 kap Förvaltningsberättelse 4:e stycket ska Pharmadule Morimatsu AB lämna uppgifter om hållbarhetsarbetet med fokus på miljö- och personalfrågor.

Sammanfattningsvis kan konstateras att företaget söker efterleva ställda krav inom nämnda områden och ett flertal dokument, strategier och policies har tagits fram och implementeras. Ett flertal interna utbildningar har genomförts för att tillse att samtliga anställda har en gemensam värdegrund.

Företagets hemsida har uppdaterats med en separat del som behandlar frågorna hur företaget dess produkter möter kraven på hållbarhet.

Miljöfrågor

Ett samarbete inom Morimatsu koncernen har initierats för att förstå hur miljön påverkas av våra produkter och dess värdekedjor. Målsättningen är att minska miljöavtrycket sett över deras hela livscyklar. Detta arbete är långsiktigt och ska utvecklas framöver.

Lokalt Sverige, har ett arbete genomförts för att belysa vilka miljöområden som belastas, och att ta fram nyckeltal (KPI) för att kunna mäta och följa upp utvecklingen för identifierade områdena:

- Energiförbrukning
- Uppvärmning
- Avfall
- Avlopp

Då företaget hyr en del av en större fastighet har analysen påvisat att det endast går att sätta KPI och följa utfallet för kontorets energiförbrukning. Målet är satt till ≤ 12.000 kWh/år, vilket uppfyllts under 2023.

Ett system för en uppstyrd hantering av avfallet har tagits fram. Detta är beskrivet i en instruktion och med genomförd intern utbildning inom området.

Personalfrågor

Den övergripande målsättningen för arbetsmiljön på Pharmadule Morimatsu Sverige är att främja en säker och sund arbetsplats både avseende den fysiska och sociala arbetsmiljön. Utöver de lagstadgade kraven i Arbetsmiljölagen och de bestämmelser från Arbetsmiljöverket, strävar Pharmadule Morimatsu efter att uppnå en trevlig och öppen arbetsmiljö.

- Alla nyanställda får en introduktion
- Vi förebygger och avvisar kränkande behandling
- Vi arbetar aktivt för att främja mångfald, rättvisa och inkludering
- Vi genomför prestationsbedömningar där förväntningar och mål tydliggörs
- Hälsa och fysisk aktivitet uppmuntras genom hälsobidrag
- Vi har tillgång till företagshälsovård och rehabilitering, möjlighet till årlig hälsokontroll
- Vi undersöker och dokumenterar arbetsförhållanden och bedömer risker
- Vi undersöker sjukdom, olyckor och incidenter

Instruktioner har tagits fram för att styra upp och hantera eventuella problem rörande bedrägerier respektive mutor och korruption. Det sistnämnda området omfattar även visselblåsarfunktion. Instruktionerna baseras på och likställs med motsvarande inom Morimatsu koncernen.



According to Chapter 6, Section 4 of the Annual Report Act (ÅRL), Pharmadule Morimatsu AB is required to provide information on sustainability efforts focusing on environment and staff.

In summary, it can be stated that the company seeks to comply with the requirements in these areas.

Several documents, strategies, and policies have been developed and implemented. Internal training sessions have been conducted to ensure that all employees share a common set of values.

The company's website has been updated with a separate section addressing how the company and its products meet sustainability requirements.

Environmental Issues

A collaboration within the Morimatsu group has been initiated to understand the environmental impact of our products and their value chains. The goal is to reduce the environmental footprint across their entire life cycles.

This work is long-term and will continue to evolve.

- Energy consumption
- Heating
- Waste
- Sewage

Since the company rents a portion of a larger property, the analysis has shown that only KPIs for office consumption can be established and monitored. The goal is set at $\leq 12,000$ kWh/year, which was achieved in 2023.

Personnel Issues

The overall goal for the working environment at Pharmadule Morimatsu Sweden is to promote a safe and healthy workplace, both in terms of physical and social aspects. In addition to the statutory requirements of the Work Environment Act and regulations from the Swedish Work Environment Authority, Pharmadule Morimatsu strives to achieve a pleasant and open working environment.

- All new employees receive an introduction
- We prevent and reject abusive treatment
- We actively work to promote diversity, fairness, and inclusion
- We conduct performance evaluations where expectations and goals are clarified
- Health and physical activity are encouraged through health benefits
- We have access to company health care and rehabilitation, with the opportunity for an annual health check-up
- We investigate and document working conditions and assess risks
- We investigate illness, accidents, and incidents

Instructions have been developed to address and manage any issues regarding Fraud and Corruption, including a whistleblowing function. These instructions are based on and equated with those within the Morimatsu group.

Utveckling av företagets verksamhet, resultat och ställning
Development of the company's operations, performance and financial position

| | 2023-12-31 | 2022-12-31 | 2021-12-31 | 2020-12-31 | 2019-12-31 |
|-------------------------------------|------------|------------|------------|------------|------------|
| Nettoomsättning / (TKR) | 841 322 | 484 727 | 214 877 | 68 792 | 248 785 |
| <i>Net turnover</i> | | | | | |
| Resultat efter finansnetto (TKR) | 29 984 | 16 497 | 18 306 | 17 985 | 6 065 |
| <i>Result after financial items</i> | | | | | |
| Rörelsemarginal (%) / <i>Margin</i> | 3,55 | 3,14 | 5,9 | 31 | 1,5 |
| Balansomslutning (TKR) | 386 143 | 662 299 | 274 449 | 82 056 | 121 802 |
| <i>Balance sheet total</i> | | | | | |
| Soliditet (%) / <i>Solidity</i> | 24 | 22 | 20 | 40 | 13 |

Förändringar i eget kapital
Changes in equity

| | Aktiekapital | Övrigt bundet eget kapital | Övrigt fritt eget kapital | Årets resultat | Summa fritt eget kapital |
|--|----------------------|----------------------------|----------------------------|----------------|----------------------------------|
| | <i>Share Capital</i> | <i>Restricted equity</i> | <i>Unrestricted equity</i> | <i>Result</i> | <i>Total Unrestricted equity</i> |
| Belopp vid årets ingång | | | | | |
| <i>Amount at the beginning of the year</i> | 2 000 000 | 0 | 49 463 766 | 9 814 279 | 59 278 045 |
| Resultatdisp. enl. beslut av årsstämma: | | | 9 814 279 | -9 814 279 | - |
| <i>Profit approp. as decided by the board meeting:</i> | | | | | |
| Utdelning | | | | | |
| <i>Dividend</i> | | | | | |
| Årets vinst | | | | 18 193 081 | 18 193 081 |
| <i>Profit of the year</i> | | | | | |
| Belopp vid årets utgång | 2 000 000 | 0 | 59 278 045 | 18 193 081 | 77 471 126 |

Villkorade aktieägartillskott uppgår till 43 050 000 SEK.
Conditional shareholder contributions amounts to 43 050 000 SEK.

Väsentliga händelser under räkenskapsåret *Significant events during the fiscal year*

Det resultat företaget har uppnått 2023 var bra. Medan orderstocken inte är tillräckligt bra och mer ansträngning krävs för att bibehålla ett bra resultat under det kommande året.

Under 2023 har företaget kvalificerats av CSL globalt och flera "process skid"-ordrar utfärdades av CSL för olika projekt i Australien. Företaget fick också en basic design order från Rabdan Holding för modulärbyggnad. Tyvärr kommer denna basic design inte att gå vidare till nästa fas på grund av budgetproblem för kunden. Det finns ett flertal andra ordrar som är ändringsordrar för pågående projekt och som inte är väsentliga.

Under 2023 genomför företaget åtta projekt parallellt. Sex av dem är "process skid"-projekt. Två är stora modulära anläggningsprojekt, inklusive Cytiva US och EIPICO, där en god procentandel av framstegen genomfördes. Två stora projekt från tidigare år, Lonza och Beiersdorf pågår fortfarande, på grund av att omfattningen av scopet har ökat. De förväntas att bli klara under 2024.

På grund av omstrukturering av koncernen, baserat på verksamhet, sålde Pharamdule Morimatsu AB, (nedan kallad PHD), i december 2023 alla aktier i Morimatsu Houston Corporation, (nedan kallat MHC), till Morimatsu (Singapore) Pte. Ltd. Fram till slutet av 2023 finns två dotterbolag under PHD. De är Pharmadule Morimatsu Inc, (nedan kallad PMI) och Morimatsu Italy S.R.L, (nedan kallad MI). Samtidigt, av samma anledning, kommer moderbolaget till PHD att ändras från Morimatsu Hongkong International Holdings Company Ltd. till ett nybildat bolag, Morimatsu Lifesciences (Singapore) Pte Ltd. Aktieägaröverlåtelsen kommer att slutföras i början av 2024. Den slutliga ägaren är dock fortfarande densamma.

Företaget fortsätter att aktivt expandera och fokusera på life science-marknaden och förvärvar expertis och teknologi globalt. Denna omstrukturering kommer att göra det möjligt för företaget att koncentrera sig på nyckelbranscher, fullt ut nyttja styrkorna hos dess olika dotterbolag och därigenom främja affärstillväxt och öka lönsamheten.

Under 2023, med den globala ekonomiska tillväxten som avtar, har både projektmöjligheter och investeringsbelopp minskat. För att öka marknadsnärvaron och förbättra försäljningsmöjligheterna, deltog företaget 2023 i mer än tio utställningar i EU och USA och anordnade även ett seminarium "Next Generation Pharmaceutical Manufacturing Facilities" i Egypten. Företaget fortsätter att rekrytera talanger i USA, Italien och i Sverige.

Under 2023 blir huvudfokus att öka affärsutvecklare i olika regioner. Till slutet av 2023 har företaget lagt till en affärsutvecklare i Irland, en i Italien och en i USA. Förutom den fasta rollen, använde sig företaget även av konsulter i USA.

The result the company has achieved in 2023 was good. While the backlog is not good enough and more effort is needed to keep the good result in the coming year.

In 2023 the company has been qualified by CSL globally and several process skid orders were issued by CSL for different projects in Australia. The company also got one basic design order from Rabdan Holding for modular building. Unfortunately, this basic design won't proceed to the next phase due to budget issues for the client. There are several other orders which are change orders for ongoing projects and not significant.

In 2023, the company is executing eight projects in parrel. Six of them are process skid projects. Two are big modular facility projects, including Cytiva US and EIPICO, good percentage of progress were completed. Two large projects from previous years Lonza and Beiersdorf are still ongoing, due to site scope increasing, they are expected to be completed in 2024.

Due to the re-structure of the group based on business, in Dec. 2023 Pharamdule Morimatsu AB, (hereinafter called PHD), sold all shares of Morimatsu Houston Corporation, (hereinafter called MHC), to Morimatsu (Singapore) Pte. Ltd. Until the end of 2023 there are two daughter companies under PHD. They are Pharmadule Morimatsu Inc., (hereinafter called PMI), Morimatsu Italy S.R.L, (hereinafter called MI). Meanwhile for the same reason hereinbefore, the parent company of PHD will be changed from Morimatsu Hongkong International Holdings Company Ltd. to a newly established company called Morimatsu Lifesciences (Singapore) Pte Ltd. The shareholder transfer will be completed in the beginning of 2024. However, the ultimate owner is still be the same.

The company continues to actively expand and focus on the life sciences market, acquiring expertise and technology globally. This restructuring will enable the company to concentrate on key industries, fully leverage the strengths of its various subsidiaries, and thereby promote business growth and enhance profitability.

In 2023, with the global economic growth slowing down, both project opportunities and investment amounts have been shrinking. To increase market presence and enhance sales opportunities, in 2023 the company participated more than ten exhibitions in EU and US and also organized a seminar "Next Generation Pharmaceutical Manufacturing Facilities" in Egypt. The company keeps recruiting talent in US, Italy and Sweden. In 2023 the main focus is to add business developers in different regions. Till the end of 2023, the company has added one BD in Ireland, one BD in Italy and one BD in US. Besides the permanent role, the company also used two BD consultants in US.

Förväntad framtida utveckling samt väsentliga risker och osäkerhetsfaktorer

Expected future developments and significant risks and uncertainties

Under 2024 kommer bolaget att fortsätta att stärka affärsutvecklings- och försäljningsinsatser med fokus på dess begränsade resurser på den europeiska och amerikanska marknaderna.

I början av 2024 blev PHD en Silver Corporate Partner till ISPE (The International Society for Pharmaceutical Engineering), vilket kommer att öka företagets inflytande bland kunder inom läkemedelsindustrin.

Företaget planerar att delta i över femton utställningar i år och kommer att fortsätta addera affärsutvecklare samt säljare i olika regioner.

Marknaden bromsar in och investeringarna krymper, vilket gör att våra kunder kommer att vara mer oroad över projektkostnadsutgifter och leveranssäkerhet.

Den ökade antalet affärsutvecklare och säljare kommer att ge fler möjligheter.

För att visa vår kostnadseffektivitet och säkerhet, tror vi att vi kan locka potentiella kunder att överväga att välja oss.

Bolaget kan fortfarande förutse en stabil tillväxt under de kommande åren.

Bolagets verksamhet bedrivs huvudsakligen i USD och EUR. Hittills har ingen säkring gjorts.

För att minska påverkan av växelkursfluktuationer hålls projekttillverkningskostnaden i samma valuta som för ordern.

In 2024, the company will continue to strengthen business development and sales efforts, focusing its limited resources more on the European and US markets. Starting from early 2024, PHD became a Silver Corporate Partner of ISPE (The International Society for Pharmaceutical Engineering), which will enhance the company's influence among clients in the pharmaceutical industry. The company plans to participate in over fifteen exhibitions this year and will continue to add BD and sales personnel in different regions.

The market is slowing down, and investments are shrinking, which means that our clients will be more concerned about project cost expenditures and delivery certainty. The increased BD and sales personnel will bring more opportunities. To demonstrating our cost-effectiveness and certainty advantages, we believe we can attract potential clients to consider choosing us. The company can still foresee stable growth in the coming years.

The company's businesses are mainly conducted in USD and EUR. As of now no hedging has been done. To reduce the impact of exchange rate fluctuations, the project fabrication cost is kept in the same currency of orders taken in.

Förslag till disposition av företagets vinst eller förlust
Proposed Appropriation of Result

Till årsstämman förfogande står följande fritt eget kapital:
The annual general meeting has the following free equity at its disposal:

| | Belopp i SEK / Amount in SEK |
|--|------------------------------|
| Balanserat resultat / Balanced result | 59 278 045 |
| Årets resultat / The year's results | 18 193 081 |
| Balanseras i ny räkning / Carried forward to next year | 77 471 126 |

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Resultaträkning / Income statement

| Belopp i kr SEK Amount in kr SEK | Not Note | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|---|-------------|---------------------------|---------------------------|
| Nettoomsättning <i>Net turnover</i> | 1,2 | 841 322 313 | 484 727 506 |
| Övriga rörelseintäkter <i>Other operating income</i> | 1 | 3 068 704 | 11 003 903 |
| | | 844 391 017 | 495 731 409 |
| Rörelsens kostnader <i>Operating expenses</i> | | | |
| Råvaror och förnödenheter <i>Goods for resale</i> | 1 | -779 175 187 | -477 427 417 |
| Övriga externa kostnader <i>Other external costs</i> | 4,5 | -24 951 159 | -10 949 130 |
| Personalkostnader <i>Personnel costs</i> | 3 | -16 630 466 | -16 760 260 |
| Övriga rörelsekostnader <i>Other operating costs</i> | | -9 776 100 | -4 962 851 |
| | | -830 532 912 | -510 099 658 |
| Rörelseresultat <i>Result</i> | | 13 858 105 | -14 368 249 |
| Resultat från finansiella poster <i>Result from financial items</i> | | | |
| Ränteintäkter och liknande resultatposter <i>Other interest income and similar profit/loss items</i> | 6 | 42 195 750 | 179 671 859 |
| Räntekostnader och liknande resultatposter <i>Interest expense and similar profit/loss items</i> | 7 | -24 348 319 | -148 807 022 |
| Övriga räntekostnader <i>Other interest cost</i> | | -1 721 477,00 | |
| | | 29 984 059 | 16 496 588 |
| Resultat efter finansiella poster <i>Result after financial items</i> | | 29 984 059 | 16 496 588 |
| Resultat före skatt <i>Profit/loss before tax</i> | | 29 984 059 | 16 496 588 |
| Bokslutsdispositioner <i>Year-end appropriations</i> | 8 | -7 000 000 | -4 100 000 |
| Skatt <i>Tax</i> | 11 | -4 790 978 | -2 852 309 |
| Årets resultat <i>Profit/loss for the year</i> | | 18 193 081 | 9 814 279 |

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Balansräkning / Balance sheet

| Belopp i kr SEK <i>Amount in kr SEK</i> | Not <i>Note</i> | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|--|--------------------|---------------------------|---------------------------|
| Finansiella anläggningstillgångar | | | |
| <i>Financial assets</i> | | | |
| Andelar i koncernföretag <i>Shares in group companies</i> | 9 | 2 079 205 | 14 232 780 |
| | | 2 079 205 | 14 232 780 |
| Summa anläggningstillgångar <i>Total fixed assets</i> | | 2 079 205 | 14 232 780 |
| Omsättningstillgångar | | | |
| <i>Current assets</i> | | | |
| Varulager m.m. | | | |
| <i>Inventory etc.</i> | | | |
| Material <i>Raw material</i> | | 252 540 | 0 |
| Förskott till leverantör <i>Advance to supplier</i> | | 22 799 713 | 0 |
| Kortfristiga fordringar | | | |
| <i>Current receivables</i> | | | |
| Kundfordringar <i>Accounts receivable - trade</i> | | 79 692 226 | 93 671 883 |
| Fordringar hos koncernföretag <i>Receivables from group companies</i> | 15 | 6 456 670 | 17 147 315 |
| Upparbetad men ännu ej fakturerad intäkt <i>Recognized but not yet invoiced revenue</i> | 16 | 77 580 563 | 7 783 031 |
| Övriga fordringar <i>Other receivables</i> | | 208 900 | 5 106 917 |
| Förutbetalda kostnader och upplupna intäkter <i>Prepaid expenses and accrued income</i> | 13 | 296 523 | 3 879 496 |
| | | 164 234 882 | 127 588 642 |
| Kassa och bank <i>Cash and bank balances</i> | | 206 822 937 | 165 756 883 |
| Summa omsättningstillgångar <i>Total current assets</i> | | 394 110 072 | 293 345 527 |
| SUMMA TILLGÅNGAR TOTAL ASSETS | | 396 189 277 | 307 578 307 |

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Balansräkning / Balance sheet

| Belopp i kr SEK <i>Amount in kr SEK</i> | Not <i>Note</i> | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|--|--------------------|---------------------------|---------------------------|
| EGET KAPITAL OCH SKULDER | | | |
| EQUITY AND LIABILITIES | | | |
| Eget kapital | | | |
| Shareholders equity | | | |
| Aktiekapital | 14 | 2 000 000 | 2 000 000 |
| <i>Stock capital</i> | | 2 000 000 | 2 000 000 |
| Fritt eget kapital | | | |
| <i>Non-restricted equity</i> | | | |
| Balanserad vinst eller förlust | | 59 278 045 | 49 463 766 |
| <i>Profit or loss</i> | | | |
| Årets resultat | | 18 193 081 | 9 814 279 |
| <i>Profit/loss for the year</i> | | | |
| Summa eget kapital | | 79 471 126 | 61 278 045 |
| <i>Total equity</i> | | | |
| Obeskattade reserver | | | |
| <i>Untaxed reserves</i> | | | |
| | | 15 500 000 | 8 500 000 |
| Kortfristiga skulder | | | |
| Current liabilities | | | |
| Leverantörsskulder | | 5 815 938 | 4 230 298 |
| <i>Accounts payable – trade</i> | | | |
| Skulder hos koncernföretag | 15 | 34 467 479 | 316 948 |
| <i>Liabilities to group companies</i> | | | |
| Övriga skulder | | 5 882 978 | 406 165 |
| <i>Other current liabilities</i> | | | |
| Beräknad inkomstskatt | | 3 387 953 | 3 868 128 |
| <i>Estimated income tax</i> | | | |
| Fakturerat men ej upparbetad intäkt | | 83 247 620 | 30 929 896 |
| <i>Invoiced but not earned income</i> | | | |
| Upplupna kostnader och förutbetalda intäkter | 10 | 168 416 183 | 198 048 829 |
| <i>Accrued expenses and deferred income</i> | | | |
| | | 301 218 151 | 237 800 262 |
| SUMMA EGET KAPITAL OCH SKULDER | | 396 189 277 | 307 578 307 |
| TOTAL EQUITY AND LIABILITIES | | | |

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Kassaflödesanalys / Cashflow analysis

| Belopp i kr SEK <i>Amount in kr SEK</i> | Not <i>Note</i> | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|---|--------------------|---------------------------|---------------------------|
| Den löpande verksamheten | | | |
| Operations | | | |
| Rörelseresultat <i>Result</i> | | 13 858 105 | -14 368 249 |
| Erhållen/betald ränta <i>Paid interest</i> | 6,7 | 3 989 508 | 285 055 |
| Betald inkomstskatt <i>Paid income tax</i> | | -6 539 673 | -353 438 |
| Kassaflöde från den löpande verksamheten före förändringar av rörelsekapital <i>Cash flow from operating activities before changes in working capital</i> | | 15 027 338 | -14 436 632 |
| Kassaflöde från förändringar i rörelsekapital <i>Cash flow from changes in working capital</i> | | | |
| Ökning (-) / Minskning (+) av rörelsefordringar <i>Increase (-) / decrease (+) in receivables</i> | | -59 698 491 | -26 612 578 |
| Ökning (+) / Minskning (-) av rörelseskulder <i>Increase (+) / decrease (-) in payables</i> | | 63 417 889 | 18 092 350 |
| Kassaflöde från den löpande verksamheten <i>Cash-flow from operations</i> | | 18 746 736 | -22 956 860 |
| Investeringsverksamheten | | | |
| Investments | | | |
| Förvärv dotterbolag <i>Acquisition of subsidiaries</i> | | 0 | -12 153 575 |
| Försäljning dotterbolag <i>Sale of subsidiaries</i> | | 8 191 286 | - |
| Kassaflöde från investeringsverksamhet <i>Cash flow from investing activities</i> | | 8 191 286 | -12 153 575 |
| Årets kassaflöde <i>Cash-flow</i> | | | |
| Likvida medel vid årets början <i>Cash and cash equivalents at beginning of year</i> | | 165 756 883 | 170 287 537 |
| Kursdifferens likvida medel <i>Exchange difference</i> | 6,7 | 17 847 431 | 30 579 782 |
| Likvida medel vid årets slut <i>Cash and cash equivalents at the end of year</i> | | 206 822 937 | 165 756 883 |

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Tilläggsupplysningar *Additional information*

Redovisningsprinciper *Accounting principles*

Belopp i kr om inget annat anges
All amounts are expressed in Swedish kronor, unless stated otherwise

Allmänna redovisningsprinciper *General accounting principles*

Årsredovisningen har upprättats i enlighet med årsredovisningslagen och Bokföringsnämndens allmänna råd BFNAR 2012:1 Årsredovisning och koncernredovisning (K3).

The annual report has been established in accordance with the Annual Report law and the Swedish Accounting Standards Board's general recommendations BFNAR 2012:1 "Årsredovisning och koncernredovisning (K3)".

Värderingsprinciper m m *Valuation principles*

Tillgångar och skulder har värderats till anskaffningsvärden om inget annat anges nedan. Tillgångar och skulder i utländsk valuta har räknats om till balansdagens kurs.

Assets, provisions and liabilities have been valued at acquisition value unless otherwise stated. Assets and liabilities in foreign currencies have been calculated at the exchange rate valid at the closing date.

Andelar i dotterföretag och intresseföretag *Shares in subsidiaries and associates*

Andelar i dotterföretag och intresseföretag redovisas till anskaffningsvärde minskat med ackumulerade nedskrivningar. I anskaffningsvärdet ingår förutom inköpspriset även utgifter som är direkt hänförliga till förvärvet.

Shares in subsidiaries and associates are recognized at cost less accumulated depreciation. In addition to the purchase price, the cost includes expenses directly attributable to the acquisition.

Intäktsredovisning *Revenue recognition*

Företaget vinstavräknar, för utförda tjänsteuppdrag med fast pris i takt med att arbetet utförs, s.k. successiv vinstavräkning. Vid beräkningen av upparbetad vinst har färdigställandegraden beräknats genom budgeterade timmar i förhållande till nedlagda timmar. Även utförda "milestones" i förhållande till projekten som helhet.

The company recognizes the revenue for performed services on a fixed price basis at the rate the work is completed, i.e. the percentage of completion method. When calculating the recognized revenue, the percentage of completion has been based on budgeted hours in relation to hours worked. Even performed "milestones" in relation to the projects as a whole.

Aktuell skatt är inkomstskatt för innevarande räkenskapsår som avser årets skattepliktiga resultat och den del av tidigare räkenskapsårs inkomstskatt som ännu inte har redovisats.

Aktuell skatt värderas till det sannolika beloppet enligt de skattesatser och skatteregler som gäller på balansdagen.

Uppskjuten skatt är inkomstskatt för skattepliktigt resultat avseende framtida räkenskapsår till följd av tidigare transaktioner eller händelser.

Leasing ***Leasing***

Ett finansiellt leasingavtal är ett leasingavtal enligt vilket de ekonomiska risker och fördelar som är förknippade med att äga en tillgång i allt väsentligt överförs från leasegivaren till leasetagaren. Ett operationellt leasingavtal är ett leasingavtal som inte är ett finansiellt leasingavtal.

Operationella leasingavtal kostnadsförs linjärt över leasingperioden.

Rättigheter och skyldigheter enligt finansiella leasingavtal redovisas som tillgång och skuld i balansräkningen. Tillgången och skulden redovisas till det lägsta av tillgångens verkliga värde och nuvärdet av minimileaseavgifterna, fastställda vid leasingavtalets ingående. Leasingavgifterna fördelas på ränta och amortering av skulden enligt effektivräntemetoden som kostnad det räkenskapsår utgifterna uppkommer.

A finance lease is a lease under which the financial risks and benefits associated with owning an asset are essentially transferred from the lessor to the lessee. An operating lease is a lease that is not a finance lease.

Operating leases are expensed on a straight-line basis over the lease term.

Rights and obligations under financial leasing agreements are reported as assets and liabilities in the balance sheet. The asset and liability are reported at the lower of the asset's fair value and the present value of the minimum lease fees, determined at the conclusion of the lease. Leasing fees are distributed on interest and amortization of the debt according to the effective interest method. Variable fees are reported as expenses during the financial year the expenses arise.

Ersättning till anställda ***Remuneration to employees***

Avgiftsbestämda pensionsplaner.
Avgifter för avgiftsbestämda pensionsplaner kostnadsförs löpande.

Defined contribution pension plans.
Fees for defined contribution pension plans are expensed as incurred.

Fordringar och skulder i utländsk valuta ***Receivables and liabilities in foreign currency***

Monetära fordringar och skulder i utländsk valuta har räknats om till balansdagens kurs. Valutakursdifferenser som uppkommer vid reglering eller omräkning av monetära poster redovisas i resultaträkningen det räkenskapsår de uppkommer, antingen som en rörelsepost eller som en finansiell post utifrån den underliggande affärshändelsen.

Monetary receivables and liabilities in foreign currency have been converted at the closing day rate. Exchange rate differences arising from settlement or conversion of monetary items are recognized in the income statement in the financial year they arise, either as an operating item or as a financial item based on the underlying business event.

Uppskattningar och bedömningar *Estimates and assessments*

Upprättandet av bokslut och tillämpning av redovisningsprinciper, baseras ofta på ledningens bedömningar, uppskattningar och antaganden som anses vara rimliga vid den tidpunkt då bedömningen görs. Uppskattningar och bedömningar är baserade på historiska erfarenheter och ett antal andra faktorer, som under rådande omständigheter anses vara rimliga. Resultatet av dessa används för att bedöma de redovisade värden på tillgångar och skulder, som inte annars framgår tydligt från andra källor. Det verkliga utfallet kan avvika från dessa uppskattningar och bedömningar. Uppskattningar och antaganden ses över regelbundet.

De viktigaste bedömningarna, som har mest betydande effekt på de finansiella rapporteringen, vid tillämpning av de av Pharmadule Motimatsu ABs redovisningsprinciper är följande:

The preparation of financial statements and application of accounting principles are most often based upon management's assessments, estimates and assumptions that are deemed reasonable at the time of the assessment. Estimates and assessments are established from historical experience and a number of other factors, which are considered reasonable under current circumstances. The result is then used to assess the reported values of assets and liabilities since it is not clear from other sources. The actual outcome may deviate from these estimates and assessments. Estimates and assumptions are regularly reviewed.

The most important assessments, which have a significant impact on the financial reporting, applying the accounting policies of Pharmadule Motimatsu AB are as follows:

Redovisning av pågående arbeten *Recognition of work in progress*

Att bestämma när vinstavräkning från pågående arbeten ska redovisas krävs bland annat en förståelse för hur arbetet fortskrider och historisk erfarenhet av liknande arbeten. Redovisningen av intäkter och kostnader från pågående arbeten kräver också väsentliga bedömningar vid bestämning av milstolpar, faktisk upparbetning och beräknade utgifter för att färdigställa arbetet.

Determining when the income recognition from ongoing work is to be reported requires an understanding of how the work progresses and historical experience of similar projects. The accounting of revenue and costs from work in progress also requires significant assessments in determining milestones, actual reprocessing and estimated expenses for completing the project.

Bedömning av osäkra fordringar *Assessment of doubtful receivables*

Kundfordringar värderas till det kassaflöde som förväntas inflyta till företaget. Därmed görs en detaljerad och objektiv genomgång av alla utestående belopp på balansdagen.

Account receivables are valued to the anticipated cash flow that the company expects to extract. Hence, a detailed and objective review of all outstanding amounts at the balance sheet date is performed.

Osäkerhet i uppskattningar *Uncertainty in estimates*

Nedan följer information om uppskattningar och antaganden som har den mest betydande effekten på redovisning och värdering av tillgångar, skulder, intäkter och kostnader. Bedömningen är gjord utifrån information som fanns tillgänglig vid Årsredovisningens upprättande.

Presented below are information regarding estimates and assumptions that have the greatest effect on accounting and valuation of assets, liabilities, income and expenses. The assessment is based on information available during the preparation of the annual report.

Intäkter från kundavtal med fast pris *Revenue from customer contracts at fixed prices*

Redovisade intäkter och kostnader med tillhörande fordringar och skulder för dessa avtal återspeglar den bästa uppskattningen av utfallet och färdigställandegraden för varje avtal. Detta inkluderar en bedömning av vinsten i pågående arbeten och eftersläpande orders. När det gäller mer komplicerade uppdrag finns viss osäkerhet vid bedömning av kostnaderna för färdigställande och lönsamhet.

Reported revenues and expenses with related receivables and liabilities for these agreements reflect the best estimate of the outcome and the degree of completion for each agreement. This includes an assessment of the revenue in ongoing projects and subsequent orders. Concerning assignments of greater complexity there is some uncertainty in assessing the cost of completion and profitability.

Nyckeltalsdefinitioner *Key definitions*

| | |
|---|--|
| Rörelseresultat | <i>Result</i> |
| Nettoomsättning – rörelsekostnader | <i>Net turnover – operating expenses</i> |
| Rörelsemarginal | <i>Margin</i> |
| Rörelseresultat / nettoomsättning | <i>Result / net turnover</i> |
| Balansomslutning | <i>Balance sheet total</i> |
| Totala tillgångar | <i>Total assets</i> |
| Soliditet | <i>Solidity</i> |
| Totalt eget kapital / totala tillgångar | <i>Total equity / total assets</i> |

Not 1 Transaktioner med koncernbolag
Note 1 Transactions with group companies

| | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|--|---------------------------|---------------------------|
| Inköp från koncernbolag/ <i>The purchase from Group companies</i> | 508 074 656 | 477 427 417 |
| Försäljning till koncernbolag/ <i>The sales to Group companies</i> | 250 652 | 8 777 701 |
| Kursvinster rörelsen/ <i>Exchange profit</i> | 3 068 704 | 11 003 421 |

Not 2 Omsättning per geografisk marknad
Note 2 Sales per geographical market

| | 2023-12-31 | 2022-12-31 |
|-------------------------------|--------------------|--------------------|
| Sverige / <i>Sweden</i> | 37 166 843 | 1 210 968 |
| Kina / <i>China</i> | 12 296 473 | 21 521 257 |
| USA / <i>USA</i> | 212 685 091 | 43 817 598 |
| Malaysia / <i>Malaysia</i> | 2 444 168 | 16 382 657 |
| Schweiz / <i>Switzerland</i> | 36 742 364 | 160 261 999 |
| Egypten / <i>Egypt</i> | 378 104 525 | 25 965 240 |
| Mexiko / <i>Mexico</i> | 62 497 628 | 190 826 840 |
| Frankrike / <i>France</i> | 26 356 451 | 23 231 877 |
| Australien / <i>Australia</i> | 57 084 673 | - |
| Övriga / <i>Others</i> | 15 944 097 | 1 509 069 |
| Total / Total | 841 322 313 | 484 727 506 |

Not 3 Anställda och personalkostnader
Note 3 Employees, salaries and other personnel related costs

Redovisning av könsfördelning i företagsledning
Gender distribution in company managements

| | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|--|---------------------------|---------------------------|
| Styrelsen / <i>The Board</i> | 2 | 2 |
| Kvinnor / <i>Women</i> | 0 | 0 |
| Övriga ledande befattningshavare / <i>Other management positions</i> | 1 | 1 |
| Kvinnor / <i>Women</i> | 1 | 1 |

Medelantalet anställda
Average numbers of employees

| | 2023-12-31 | 2022-12-31 |
|------------------------|------------|------------|
| Män / <i>Men</i> | 10 | 10 |
| Kvinnor / <i>Women</i> | 4 | 4 |
| Totalt / Total | 14 | 14 |

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Löner, andra ersättningar och sociala kostnader
Salaries, other reimbursement and social security charges

| | 2023-12-31 | 2022-12-31 |
|---|-------------------|------------------|
| Styrelse och VD / Board and managing directors | 1 348 596 | 1 274 244 |
| Andra anställda / Other employees | 9 434 801 | 8 190 894 |
| Summa / Sum | 10 783 397 | 9 465 138 |
| Sociala kostnader / Social security charges | 3 730 867 | 3 856 895 |
| Varav pensionskostnader för styrelse och VD / Of which pension costs for the board and managing director | 294 654 | 281 539 |
| Varav pensionskostnader för övriga anställda / Of which pension costs for other employees | 1 217 521 | 1 393 887 |

Not 4 Arvode och kostnadsersättning till revisorer
Note 4 Fees and expenses for auditors

| | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|--|---------------------------|---------------------------|
| BDO Mälardalen AB Revisionsuppdrag / Audit | 662 225 | 505 650 |

Not 5 Operationell leasing
Note 5 Operational leasing

| | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|---|---------------------------|---------------------------|
| Framtida leasingavgifter för icke uppsägningsbara kontrakt Future leasing fees for non-cancellable contracts | | |
| Inom 1 år / Within 1 year | 1 265 989 | 1 134 309 |
| Mellan 2-5 år / Between 2-5 years | 2 531 978 | 2 268 612 |
| Längre än 5 år / More than 5 years | | |
| Årets hyreskostnad / Cost of rent | 1 265 989 | 1 134 306 |

Leasingkostnader avser kontorshyra, hyresavtal löper på 3 år/
Lease costs relate to office rent, current period 3 years.

Not 6 Ränteintäkter och liknande intäkter
Note 6 Interest income and similar income

| | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|---|---------------------------|---------------------------|
| Ränteintäkter / Interest income | 2 246 290 | 326 896 |
| Valutakursvinster / Exchange rate gains | 42 195 750 | 179 344 962 |
| Summa / Sum | 44 442 040 | 179 671 859 |

Not 7 Räntekostnader och liknande kostnader
Note 7 Interest costs and similar costs

| | 2023-01-01- 2023-12-31 | 2022-01-01- 2022-12-31 |
|---------------------------------------|---------------------------|---------------------------|
| Valutakursförluster / Exchange losses | 24 348 319 | 148 765 181 |
| Räntekostnader / Interest costs | 5 478 | 41 841 |
| Summa / Sum | 24 353 797 | 148 807 022 |

Not 8 Bokslutsdispositioner
Note 8 Year-end appropriations

| | 2023-12-31 | 2022-12-31 |
|--|-------------------|-------------------|
| Årets avsättning periodiseringsfond / <i>provisions for accrual fund</i> | -7 000 000 | -4 400 000 |
| Årets återföring periodiseringsfond / <i>return of accrual fund</i> | 0 | 0 |
| Summa / <i>Sum</i> | -7 000 000 | -4 400 000 |

Not 9 Andelar i koncernföretag
Note 9 Shares in group companies

| | 2023-12-31 | 2022-12-31 |
|--|------------------|-------------------|
| Akkumulerade anskaffningsvärden: / <i>Accumulated acquisition value:</i> | | |
| Ingående anskaffningsvärde / <i>opening cost</i> | 14 232 780 | 2 079 205 |
| Förvärv under året / <i>acquisition during the year</i> | 0 | 12 153 575 |
| Försäljning under året / <i>sale during the year</i> | -12 153 575 | - |
| Redovisat värde vid årets slut | 2 079 205 | 14 232 780 |
| <i>Reported value at year end</i> | | |

Specifikation av moderföretagets innehav av aktier och andelar i koncernbolag
Specification of the parent company's shares in group companies

Pharmadule Morimatsu Inc

Ägarandelen av kapitalet avses, vilket även överensstämmer med andelen av rösterna för totalt antal aktier. Bolagets egna kapital är 716 682 USD med en vinst 2023 om 492 390 USD.
Ownership of capital, which also corresponds to the percentage of votes of the total number of shares. The company's equity is 716 682 USD and the profit 2023 was 492 390 USD.

| | Antal andelar | i % | Redovisat värde |
|---|----------------------|------------|-----------------------|
| <i>Subsidiary / Org no / Place of business</i> | <i>No. Of shares</i> | <i>%</i> | <i>Reported value</i> |
| Pharmadule Morimatsu Inc., 0400427097, Branchburg, NJ, USA | 100 | 100 | 33 045 |
| <i>Pharmadule Morimatsu Inc., 0400427097, Branchburg, NJ, USA</i> | <i>100</i> | <i>100</i> | <i>33 045</i> |

Morimatsu Italy Srl

Ägarandelen av kapitalet avses, vilket även överensstämmer med andelen av rösterna för totalt antal aktier. Bolagets egna kapital är 488 323 EUR med ett resultat 2023 om 288 323 EUR.
Ownership of capital, which also corresponds to the percentage of votes of the total number of shares. The company's equity is 488 323 EUR and the result 2023 was 288 323 EUR.

| | Antal andelar | i % | Redovisat värde |
|--|----------------------|------------|-----------------------|
| <i>Subsidiary / Org no / Place of business</i> | <i>No. Of shares</i> | <i>%</i> | <i>Reported value</i> |
| Morimatsu Italy Srl., MILANO (MI) VIA DELL, ANNUNCIATA 23 | 100 | 100 | 2 046 160 |
| <i>Morimatsu Italy Srl., MILANO (MI) VIA DELL, ANNUNCIATA 23/4 CAP</i> | <i>100</i> | <i>100</i> | <i>2 046 160</i> |

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Not 10 Upplupna kostnader och förutbetalda intäkter
Note 10 Accrued expenses and deferred income

| | 2023-12-31 | 2022-12-31 |
|--|--------------------|--------------------|
| Upplupna kostnader förutbetalda intäkter/ <i>Accrued expenses and deferred income</i> | 168 416 183 | 198 048 829 |
| | 168 416 183 | 198 048 829 |
| varav produktionskostnader / <i>of which manufacturing cost</i> | 165 096 360 | 194 653 123 |
| varav personalkostnader / <i>of which personnel cost</i> | 3 319 823 | 3 395 706 |
| varav övriga kostnader / <i>of which other cost</i> | | |

Not 11 Skatter
Note 11 Taxes

| | 2023-12-31 | 2022-12-31 |
|--|-------------------|-------------------|
| Avstämning av effektiv skat / <i>Effective tax reconciliation</i> | | |
| Resultat före skatt / <i>Profit/loss before tax</i> | 29 984 059 | 16 496 588 |
| Skattekostnad / <i>Tax expens 20,6% (21,4%)</i> | -4 790 978 | -3 398 297 |
| Skatteeffekt av / <i>Tax effect of:</i> | | |
| Ej avdragsgilla kostnader / <i>Non tax-deductive expenses</i> | -108 214 | -28 612 |
| Ej skattepliktiga intäkter / <i>Non taxable revenues</i> | 0 | 0 |
| Avsättning periodiseringsfond / <i>Provision accrual fund</i> | 1 442 000 | 844 600 |
| Nyttjat underskott / <i>Loss carry forwards used this year</i> | 0 | 0 |
| Skatt på grund av ändrad taxering / <i>Tax due to changed taxation</i> | | |
| Total / <i>Total</i> | -3 457 192 | -2 582 309 |

Not 12 Förslag till disposition av företagets vinst eller förlust
Note 12 Proposed Appropriation of Result

Styrelsen föreslår att vinstmedel disponeras enligt följande:
The board proposes that the earnings are distributed as follows:

| | |
|--|-------------------|
| Balanserad vinst/förlust / <i>Profit/Loss brought forward</i> | 16 228 045 |
| Aktieägartillskott / <i>Shareholders' contribution received</i> | 43 050 000 |
| Årets resultat / <i>Profit of the year</i> | 18 193 081 |
| | 77 471 126 |
| Styrelsen föreslår följande: / <i>The board of directors proposes following:</i> | 77 471 126 |
| Balanseras i ny räkning / <i>To be carried forward</i> | 77 471 126 |

Not 13 Förutbetalda kostnader och upplupna intäkter
Note 13 Prepaid expenses and accrued income

| | 2023-12-31 | 2022-12-31 |
|--|----------------|------------------|
| Förutbetalda hyror / <i>Prepaid rent</i> | 283 578 | 292 326 |
| Förutbetalda försäkringspremier / <i>Prepaid insurance</i> | - | 97 443 |
| Övriga interimfordringar / <i>Other prepaid items</i> | - | 3 489 727 |
| Total / <i>Total</i> | 283 578 | 3 879 496 |

Not 14 Aktiekapital
Note 14 Capital stock

| | 2023-12-31 |
|-----------------------------|------------------|
| Antal aktier / Stock amount | 20 000 |
| Kvot värde / Ratio value | 100 |
| Total / Total | 2 000 000 |

Not 15 Fordringar hos koncernföretag
Note 15 Receivables from group companies

| | 2023-12-31 | 2022-12-31 |
|-----------------------------------|-------------------|----------------|
| Shanghai Morimatsu Pharmaceutical | 39 249 022 | 316 948 |
| Morimatsu Italy S.r.l | -3 340 770 | |
| Pharmadule Morimatsu INC | 503 640 | |
| Total / Total | 36 411 892 | 316 948 |

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Underskrifter / Signatures

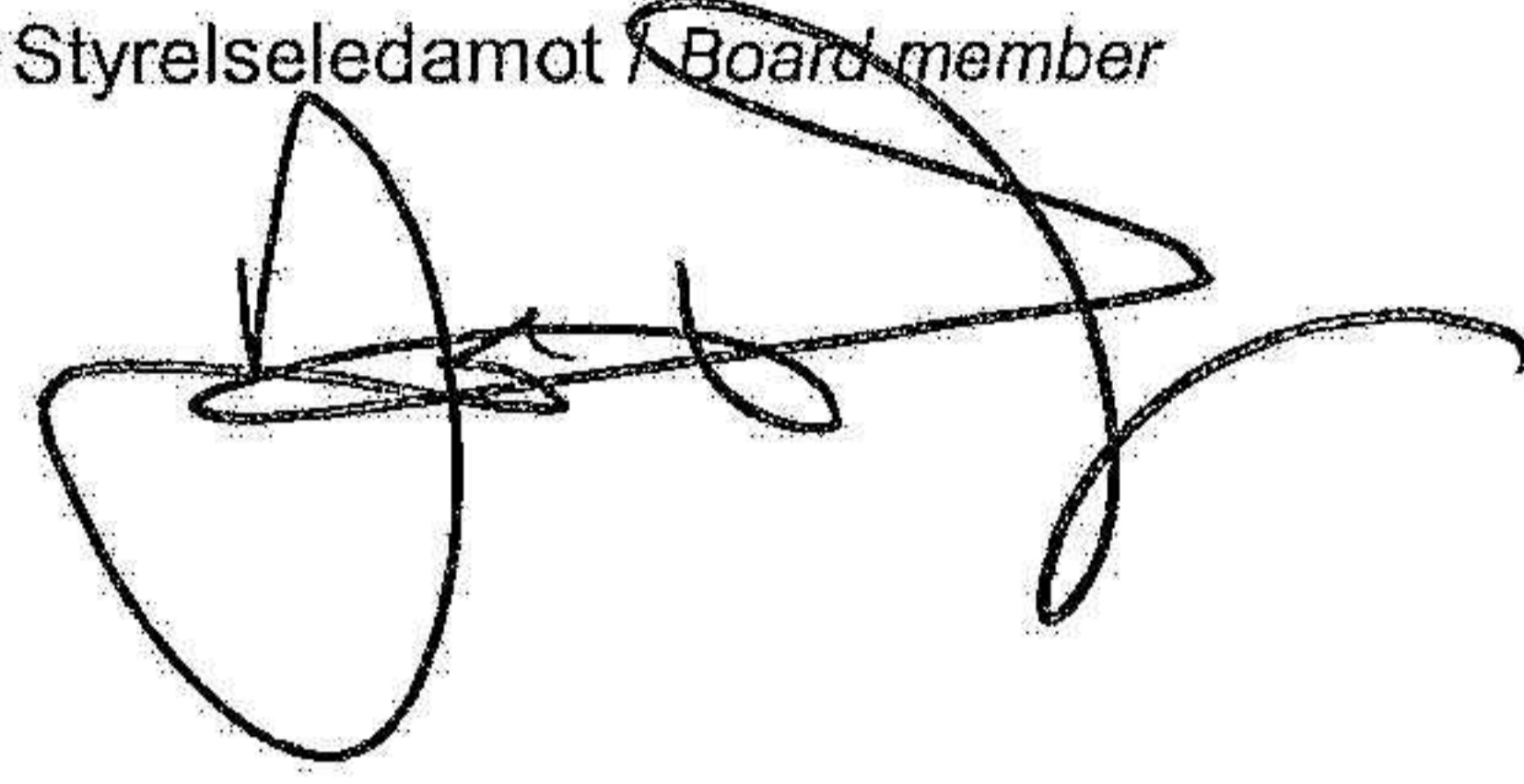
Stockholm den 5/6 - 2024

Stockholm June 5th 2024

Haifang Zhang
Verkställande direktör / CEO



Jens Lindgren
Styrelseledamot / Board member



Kazuaki Sanada
Styrelseordförande / Chairman of the Board



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Vår revisionsberättelse har lämnats den
Our audit report was submitted on

10/6 -

2024

BDO Mälardalen AB



John Larsson

Auktoriserad revisor / Authorized Public Accountant

2024062618772

REVISIONSBERÄTTELSE

Till bolagsstämman i Pharmadule Morimatsu AB
Org.nr. 556846-4910

Rapport om årsredovisningen**Uttalanden**

Vi har utfört en revision av årsredovisningen för Pharmadule Morimatsu AB för år 2023.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av Pharmadule Morimatsu ABs finansiella ställning per den 31 december 2023 och av dess finansiella resultat och kassaflöde för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet "Revisorns ansvar". Vi är oberoende i förhållande till Pharmadule Morimatsu AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen och verkställande direktören avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan

förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller misstag, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risker för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på misstag, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.

- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.

- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens och verkställande direktörens uppskattningar i redovisningen och tillhörande upplysningar.

- drar vi en slutsats om lämpligheten i att styrelsen och verkställande direktören använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om huruvida det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.

- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

Rapport om andra krav enligt lagar och andra författningar**Uttalanden**

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning för Pharmadule Morimatsu AB för år 2023 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionsred i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet "Revisorernas ansvar". Vi är oberoende i förhållande till Pharmadule Morimatsu AB enligt god revisorsred i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt. Verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

Revisorernas ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionsred i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot

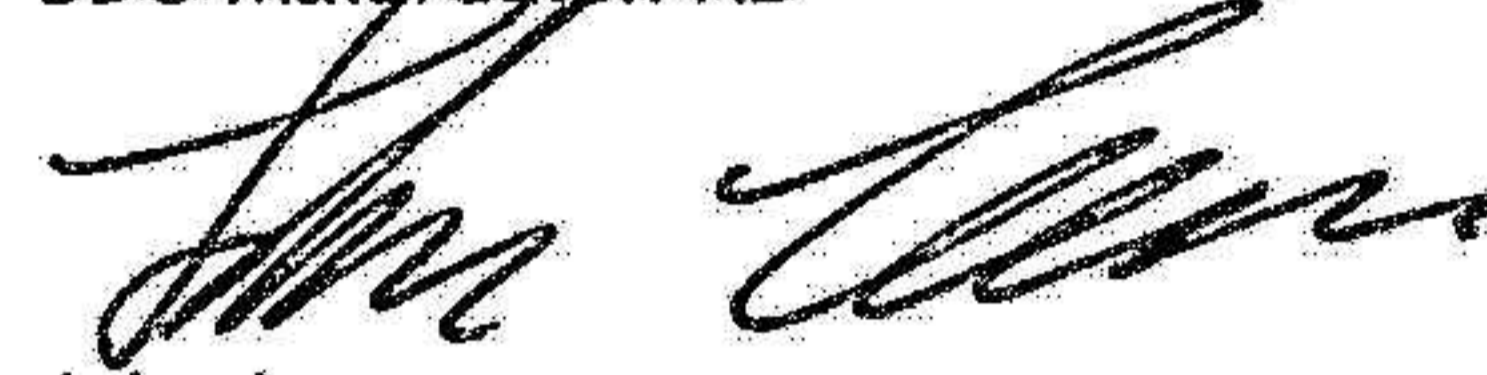
bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionsred i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

Stockholm den

10/6-2024

BDO Mälardalen AB



John Larsson

Auktoriserad revisor

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Morimatsu International Holdings Company Limited

森松國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2155)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

FINANCIAL HIGHLIGHTS

| | For the year ended 31 December | |
|--|--------------------------------|---------------|
| | 2023 RMB | 2022 RMB |
| Revenue | 7,360,262,000 | 6,486,277,000 |
| Gross profit | 2,055,704,000 | 1,793,386,000 |
| <i>Gross profit margin</i> | 27.9% | 27.6% |
| Net profit | 842,548,000 | 666,182,000 |
| <i>Net profit margin</i> | 11.4% | 10.3% |
| New orders amounts | 7,784,856,000 | 9,355,794,000 |
| EBITDA <i>Note</i> | 1,143,066,000 | 890,682,000 |
| Basic earnings per Share | 0.73 | 0.64 |
| Diluted earnings per Share | 0.67 | 0.58 |
| | As at 31 December | |
| | 2023 RMB | 2022 RMB |
| Aggregated amount of the transaction price allocated to the remaining performance obligations under existing contracts | 9,077,735,000 | 8,621,816,000 |

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

- Investment in unlisted equity securities;
- Monetary fund; and
- Forward exchange contracts.

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

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

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

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

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

(c) Changes in accounting policies

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

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The adoption of these accounting policies did not have significant impact on the financial statements.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

(i) Disaggregation of revenue

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

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

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

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

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

| | Year ended 31 December | |
|------------|-------------------------------|----------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Customer A | 798,967 | * |
| Customer B | * | 731,994 |

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

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

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

(iii) Geographic information

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

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

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

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

(b) **Segment reporting**

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

3 OTHER INCOME/(LOSS)

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

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

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

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

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

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| (c) Other items: | | |
| Amortisation of intangible assets | 17,367 | 15,371 |
| Depreciation charge | | |
| — owned property, plant and equipment | 116,263 | 89,668 |
| — right-of-use assets | 11,811 | 8,775 |
| Auditor's remuneration | | |
| — audit services | 4,070 | 3,890 |
| Research and development costs (i) | 418,149 | 316,084 |
| Increase in provisions | 12,964 | 14,487 |
| Cost of inventories (ii) | 5,304,558 | 4,692,891 |
| Expense relating to short-term leases | 65,713 | 44,811 |
| (i) Research and development costs included staff costs of RMB194,026,000 (2022: RMB155,469,000), depreciation and amortisation expenses of RMB10,704,000 (2022: RMB10,296,000), which are also included in the respective total amounts disclosed separately above or in Note 4(b). | | |
| (ii) Cost of inventories included staff costs of RMB628,220,000 (2022: RMB538,824,000), depreciation and amortisation expenses of RMB98,259,000 (2022: RMB61,968,000), which are also included in the respective total amounts disclosed separately above or in Note 4(b). | | |

5 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

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

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

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

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

Pursuant to the income tax rules and regulations of Hong Kong, the Company and the Group's subsidiary in Hong Kong was subject to the Hong Kong Profits Tax at a rate of 16.5% during the reporting period. No provision for Hong Kong Profits Tax was made for the company incorporated in Hong Kong as the companies use the losses arising from the previous years and did not have income subject to Hong Kong Profits Tax during 2023 and 2022 respectively.

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

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

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

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

Pursuant to the income tax rules and regulations of the Republic of Italy, Morimatsu Italy S.R.L. was liable to the Italy Corporate Tax at a rate of 24% in 2023 and 2022. No provision for Italian Corporate Tax was made for Morimatsu Italy S.R.L. as the company did not have income subject to Italian Corporate Tax during the Reporting Period.

Pursuant to the income tax rules and regulations of United Mexican States, Permanent Establishment in Mexico, the branch of Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. was liable to the Mexico Corporate Tax at a rate of 30% in 2023 and 2022. No provision for Mexican Corporate Tax was made for Permanent Establishment in Mexico as the company did not have income subject to Mexican Corporate Tax during the Reporting Period.

Pursuant to the income tax rules and regulations of the Republic of Singapore ("**Singapore**"), Morimatsu Pharmadule (Singapore) Pte. Ltd. ("**Pharmadule Singapore**"), Morimatsu Lifesciences (Singapore) Pte. Ltd. ("**Lifesciences Singapore**") and Morimatsu (Singapore) Pte. Ltd. ("**Morimatsu Singapore**"), which were established in 2023, were subject to the Singapore Corporate Tax at a rate of 17% in 2023. No provision for Singapore Corporate Tax was made for Pharmadule Singapore, Lifesciences Singapore and Morimatsu Singapore as the companies did not have income subject to Singapore Corporate Tax during the Reporting Period.

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

| | Applicable preferential tax rate | Period |
|---|-------------------------------------|---------------|
| Morimatsu (Jiangsu) Heavy Industry Co., Ltd. ("Morimatsu Heavy Industry") (森松(江蘇)重工有限公司) | 15% | 2023 and 2022 |
| Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd. ("Morimatsu Pharmaceutical Equipment") (上海森松製藥設備工程有限公司) | 15% | 2023 and 2022 |
| Shanghai Morimatsu Biotechnology Co., Ltd. ("Morimatsu Biotechnology") (上海森松生物科技有限公司) (Note) | 15% | 2023 |

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

- (iii) Under the CIT Law of the PRC and its relevant regulation, qualified research and development expenses are subject to income tax deduction at 200% on the amount actually incurred for the year ended 31 December 2023 and 2022.
- (iv) According to the CIT Law and its implementing regulations of the CIT Law, for dividends payable to investors that are non-resident enterprise (who do not have organisations or places of business in the PRC, or that have organisations and places of business in PRC but to whom the relevant income tax is not effectively connected), 10% of the PRC withholding tax shall be paid, unless there are any applicable tax treaties are reached between the jurisdictions of non-resident enterprises and the PRC which may reduce or provide exemption to the relevant tax. Similarly, any gain derived from the transfer of shares by such investor, if such gain is regarded as income derived from sources within the PRC, shall be subject to 10% PRC income tax rate (or a lower tax treaty rate (if applicable)).

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

- (v) Under PRC CIT law, the deductible tax losses expire within 5 years from the year when such losses were incurred. It was mainly arising from the Morimatsu Investment whose principal activity was investment holding, Shanghai Mori-Biounion Technology Co., Ltd. and Shanghai Morimatsu Engineering Technology Co., Ltd. (“**Morimatsu Engineering Technology**”), who are still at start-up stages.

6 EARNINGS PER SHARE

(a) Basic earnings per share

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

Weighted average number of Shares

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

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

(b) Diluted earnings per share

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

Weighted average number of Shares (diluted)

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

7 OTHER NON-CURRENT ASSETS

| | As at 31 December | |
|---|----------------------|-----------------------|
| | 2023 | 2022 |
| | <i>RMB’000</i> | <i>RMB’000</i> |
| Prepayments for property, plant and equipment | 51,271 | 241,546 |
| Long-term deferred expense | <u>14,306</u> | <u>1,666</u> |
| | <u><u>65,577</u></u> | <u><u>243,212</u></u> |

8 CONTRACT ASSETS AND CONTRACT LIABILITIES**(a) Contract assets**

| | As at 31 December | |
|--|-------------------------|-----------------------|
| | 2023 | 2022 |
| | <i>RMB’000</i> | <i>RMB’000</i> |
| Contract assets | | |
| Arising from revenue recognised over time | <u>866,310</u> | <u>830,927</u> |
| Receivables from contracts with customers within the scope of HKFRS 15, which are included in “Trade and other receivables” (Note 9) | <u><u>1,106,792</u></u> | <u><u>682,065</u></u> |

Contract assets primarily relate to the Group's rights to consideration for work completed but not yet reached the milestones for billing at the reporting date. The Group's contracts include payment schedules which require stage payments over the delivery period once milestones are reached. Contract assets are transferred to trade receivables when the rights become unconditional.

(b) **Contract liabilities**

| | As at 31 December | |
|------------------------------------|--------------------------|------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contract liabilities | | |
| Billings in advance of performance | <u>2,290,334</u> | <u>2,890,048</u> |

Contract liabilities primarily relate to the consideration received from customers in advance, for which revenue is recognised based on the progress of the provision of related services.

| | Contract liabilities |
|--|-----------------------------|
| | <i>RMB'000</i> |
| Movement in contract liabilities | |
| At 1 January 2022 | 2,171,901 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (1,864,442) |
| Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities | <u>2,582,589</u> |
| At 31 December 2022 and 1 January 2023 | 2,890,048 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (2,305,474) |
| Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities | <u>1,705,760</u> |
| At 31 December 2023 | <u>2,290,334</u> |

9 TRADE AND OTHER RECEIVABLES

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

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Transfers of financial assets

The Group endorsed bank acceptance bills to its suppliers for settling trade payables of the same amounts on a full recourse basis. All bank acceptance bills had a maturity of less than one year from the issuance date. As at 31 December 2023, the Group did not have bill receivable (as at 31 December 2022: nil) pledged.

(i) *Transferred financial assets that were derecognised in their entirety*

The bills accepted by banks with high credit quality were derecognised when they were endorsed. In the opinion of the directors, the Group did not retain substantially all the risks and rewards of ownership of these bills, because the credit risk of the acceptance banks was very low and the Group had transferred out all interest risk of the bills upon endorsement. As the transferees had the practical ability to further endorse or discount the bills, control of these bills were transferred upon endorsement and thus they were derecognised. As at 31 December 2023, bills endorsed and derecognised, but yet reached maturity amounted to RMB203,861,000 (as at 31 December 2022: RMB507,021,000). This represents the Group's maximum exposure to loss should the acceptance banks fail to settle the bills on maturity date. However, non-settlement by those acceptance banks was considered unlikely.

(ii) *Transferred financial assets that are not derecognised in their entirety*

The other bank acceptance bills with a total carrying amount of RMB95,520,000 endorsed by the Group to its suppliers as at 31 December 2023 (as at 31 December 2022: RMB91,407,000) to settle trade payables of the same amounts, were not derecognised. In the opinion of the directors, the Group retained substantially all risks and rewards of these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated liabilities.

(b) Ageing analysis

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

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

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

10 TRADE AND OTHER PAYABLES

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

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

| | As at 31 December | |
|--|-------------------|------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 3 months | 761,296 | 1,005,728 |
| More than 3 months but less than 6 months | 162,953 | 181,516 |
| More than 6 months but less than 12 months | 173,368 | 36,670 |
| More than 1 year but less than 2 years | 151,868 | 5,848 |
| More than 2 years | 5,051 | 3,782 |
| | <u>1,254,536</u> | <u>1,233,544</u> |

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

All trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

11 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's equity between the beginning and the end of the Reporting Period are set out below:

| The Company | Share capital RMB'000 Note 11(b) | Treasury stock RMB'000 | Capital reserve RMB'000 | Exchange reserve RMB'000 Note 11(c) | Retained earnings RMB'000 | Total equity RMB'000 |
|---|--|---------------------------|----------------------------|---|------------------------------|-------------------------|
| Balance at 1 January 2022 | 571,769 | — | 590,943 | (3,151) | (168,892) | 990,669 |
| Changes in equity for the year ended 31 December 2022 | | | | | | |
| Profit for the year | — | — | — | — | 43,568 | 43,568 |
| Other comprehensive income for the year | — | — | — | 615 | — | 615 |
| Equity-settled share-based transactions | — | — | 139,387 | — | — | 139,387 |
| Issuance and repurchase of Shares to the Company (Note 11(b)(ii)) | 36,581 | (36,581) | — | — | — | — |
| Exercise of share option (Note 11(b)(iii)) | 35,307 | 1 | (35,307) | — | — | 1 |
| Total change for the year | 71,888 | (36,580) | 104,080 | 615 | 43,568 | 183,571 |
| Balance at 31 December 2022 and 1 January 2023 | 643,657 | (36,580) | 695,023 | (2,536) | (125,324) | 1,174,240 |
| Changes in equity for the year ended 31 December 2023 | | | | | | |
| Profit for the year | — | — | — | — | 200,712 | 200,712 |
| Allotment of Shares (Note 11(b)(i)) | 567,206 | — | — | — | — | 567,206 |
| Other comprehensive income for the year | — | — | — | 25,531 | — | 25,531 |
| Equity-settled share-based transactions | — | — | 91,688 | — | — | 91,688 |
| Issuance and repurchase of Shares to the Company (Note 11(b)(ii)) | 37,110 | (37,110) | — | — | — | — |
| Exercise of share option (Note 11(b)(iii)) | 54,778 | 34,746 | (55,467) | — | — | 34,057 |
| Total change for the year | 659,094 | (2,364) | 36,221 | 25,531 | 200,712 | 919,194 |
| Balance at 31 December 2023 | 1,302,751 | (38,944) | 731,244 | 22,995 | 75,388 | 2,093,434 |

(b) Share capital

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

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

(i) *Allotment of Shares under the subscription*

On 4 January 2023, the Board approved that a total of 80,000,000 Shares will be allotted and issued on 12 January 2023 as fully paid for cash at Hong Kong Dollars (“HKD” or “HK\$”) 8.30 per share. The net proceeds (after deducting all fees, costs and expenses incurred by the Company) amount to approximately RMB567,206,000.

(ii) *Issuance and repurchase of Shares to the Company*

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

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

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

(iii) Exercise of share option and RSU

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

The option to subscribe for an aggregate of 15,412,688 Shares, which grant date fair value is RMB2.29, were exercised on and after 28 June 2022 at the exercise price of RMB1,000. RMB35,307,000 was transferred from the capital reserve to the share capital account.

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

No RSUs were vested and exercised in 2022.

(c) Exchange reserve

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

(d) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, a subsidiary of the Group which is domestic enterprise is required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to its respective statutory reserves until the reserves reach 50% of its respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital. The statutory reserve can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(e) Dividends

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

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

(f) Capital reserve

The capital reserve comprises the following:

- Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised for business expansion or converted into Shares by the issuance of new Shares to Shareholders in proportion to their existing shareholdings or by increasing the par value of the Shares currently held by the Shareholders; and
- The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(g) Other reserve

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

12 FAIR VALUE MEASUREMENT**(i) Financial assets and liabilities measured at fair value***Fair value hierarchy*

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

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

| | Fair value at 31 December 2023 RMB'000 | Fair value measurements as at 31 December 2023 categorised ratio | | | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|-----------------------------------|---|---|--------------------|--------------------|--|---|---|
| | | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | | | |
| Recurring fair value measurements | | | | | | | |
| Financial Assets | | | | | | | |
| Unlisted equity securities | 10,100 | — | — | 10,100 | Backsolve from recent transaction price | Volatility Discount for lack of marketability | The higher the unobservable inputs, the higher the fair value |
| Monetary fund | 59,149 | — | 59,149 | — | Open market transaction price | N/A | N/A |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | | | |
| | | | | | | | |
| | Fair value at 31 December 2022 RMB'000 | Fair value measurements as at 31 December 2022 categorised ratio | | | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
| | | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | | | |
| Recurring fair value measurements | | | | | | | |
| Financial Assets | | | | | | | |
| Unlisted equity securities | 10,000 | — | — | 10,000 | Active market quoted transaction price | N/A | N/A |
| Monetary fund | 253,748 | — | 253,748 | — | Open market transaction price | N/A | N/A |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | | | |
| | | | | | | | |
| Financial Liabilities | | | | | | | |
| Forward exchange contracts | (1,240) | — | (1,240) | — | Discounted cash flow — Future cash flows are estimated based on observable forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties | N/A | N/A |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | | | |

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the Reporting Period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward exchange contracts in Level 2 is the estimated amount that the Group would receive or pay to transfer the contract at the end of the Reporting Period, taking into account current forward price which is derived from Bank of China.

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

Information about Level 3 fair value measurements

The unlisted equity securities are shares in Lab Direct China Limited, a company incorporated in Shanghai and engaged in provision of one-stop integrated procurement and supply services for life science industry.

Pursuant to the written resolution dated on 6 June 2022, the Group invested RMB10,000,000 to obtain 1.75% equity interest of Lab Direct China Limited. The Group categorized its investment in Lab Direct China Limited as FVPL. No dividends were received on this investment during the year (2022: nil).

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

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2023 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT VISION

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

PERFORMANCE AND GROWTH IN PRINCIPAL FIELDS

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

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

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

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

Raw materials of power battery include mining and metallurgy industry.

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

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

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

- (1) Green energy (overseas total engineering solutions for the North American market);
- (2) Sustainable food production (large-capacity bioreactors for the North American market);
- (3) Raw materials of power batteries (total solutions + process packages for the North American market);
- (4) New energy materials (core equipment + process packages for the South Asian market);
- (5) High-end wet electronic chemicals (process solutions for the North American market).

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

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

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

PRINCIPAL SECTORS AND CORE PRODUCTS

Energy and materials

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

Clean energy

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

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

Raw materials of power battery

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

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

Oil and gas refinery

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

New chemical materials

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

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

Life science

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

Pharmaceuticals and biopharmaceuticals

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

- (1) The Group completed the delivery of the world's largest fermentation tank system for injectable-grade recombinant human albumin, enhancing the original system with an addition of four 100,000-liter fermentation and corresponding purification production lines. This system will support the client in building a production base for recombinant human albumin raw materials and formulations, catering to global market demands. Upon reaching full production capacity, it is expected to produce approximately 100 tons of recombinant human albumin annually.
- (2) The Group completed the delivery of a modular pharmaceutical plant project for a renowned international pharmaceutical company. The project, comprising nearly a hundred modules that integrate diverse process systems, represents the first facility in the nation where the client locates for mixed production and bottling of monoclonal antibodies and small molecule proteins, covering a total floor area of approximately 5,000 square meters. The Group provided a comprehensive digital intelligent total plant solution, offering one-stop services including design, procurement, manufacturing, factory acceptance testing, and packaging and shipping.
- (3) The Group successfully delivered an expansion project for a domestic innovative pharmaceutical company. The project incorporated both upstream monoclonal antibody bulk production lines for mammalian cell culture and downstream complementary production process systems along with a Supervisory Control and Data Acquisition ("SCADA") system, which has shortened the project timeline while accelerating the launch of the client's new production line.

Environmental protection

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

Electronic chemicals

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

CONSTRUCTION OF PRODUCTION CAPACITY

Malaysia manufacturing base

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

Changshu manufacturing base

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

REVIEW OF FINANCIAL DATA

Revenue

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

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

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

Raw materials of power battery include mining and metallurgy industry.

Cost of sales

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

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

Gross profit and gross profit margin

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

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

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

Raw materials of power battery include mining and metallurgy industry.

Electronic chemical

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

Chemical

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

Family care

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

Raw materials of power battery

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

Oil and gas refinery

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

Pharmaceutical and biopharmaceutical

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

Other income/(loss)

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

Selling and marketing expenses

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

General and administrative expenses

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

Research and development expenses

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

Finance costs

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

Income tax expenses

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

Net profit and net profit margin

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

Non-HKFRS Measures

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

EBITDA

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

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

Property, plant and equipment

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

Trade and other receivables

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

Inventories

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

Contract liabilities

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

Borrowings and gearing ratio

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

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

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

Liquidity and capital resources

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

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

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

As at 31 December 2023, the Group had total bank facilities of RMB2,455,000,000, United States dollars (“USD”) 165,000,000, Swedish Krona 300,000,000, HK\$93,000,000 and Japanese Yen (“JPY”) 17,100,000,000 (aggregately equivalent to RMB4,779,864,000), of which, used bank facilities were approximately RMB861,921,000, USD91,507,000, Euro 4,210,000, HK\$93,000,000 and JPY82,000,000 (aggregately equivalent to approximately RMB1,631,518,000), and unused bank facilities were equivalent to RMB3,148,346,000.

Contingent liabilities and guarantees

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

Significant investments, acquisitions and disposals

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

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

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

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

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

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

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

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

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

Save as disclosed above, the Group did not hold any other significant investments, nor did it have any material acquisitions or disposals of subsidiaries during the Reporting Period.

Important events after the Reporting Period

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

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

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

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

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

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICY

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

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

The Company has also adopted a pre-IPO share option scheme, a post-IPO share option scheme and a RSU scheme. Specific information will be available in the annual report of the Company for the Reporting Period.

DIVIDENDS

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

AGM AND CLOSURE OF REGISTER OF MEMBERS

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

AUDITOR

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

SCOPE OF WORK OF THE COMPANY'S AUDITOR

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

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

Hong Kong, 28 March 2024

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