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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)

CONTINUING CONNECTED TRANSACTIONS LEASING FRAMEWORK AGREEMENT

Reference is made to the Original Leasing Framework Agreement entered into between the Company and Morimatsu Chemical, the details of which are disclosed in the “Connected Transactions” section of the Prospectus.

As the individual lease agreements under the Original Leasing Framework Agreement will expire on 31 December 2023, in order to regulate the continuing connected transactions between the Group and Morimatsu Chemical, the Company (for itself and on behalf of its subsidiaries) and Morimatsu Chemical entered into a property leasing framework agreement on 10 November 2023 (the “**New Leasing Framework Agreement**”) for the term of three years from 1 January 2024 to 31 December 2026, subject to the annual caps.

Morimatsu Chemical is a subsidiary of Morimatsu Seiki, which in turn is a wholly-owned subsidiary of Morimatsu Holdings, the controlling shareholder of the Company. Pursuant to the Listing Rules, Morimatsu Chemical is a connected person of the Company. Accordingly, pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the New Leasing Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) in respect of the highest proposed annual caps of the New Leasing Framework Agreement is/are more than 0.1% but all of them are less than 5%, the transactions contemplated under the New Leasing Framework Agreement are subject to the reporting, annual review and announcement requirements, but are exempt from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the Original Leasing Framework Agreement entered into between the Company and Morimatsu Chemical, the details of which are disclosed in the “Connected Transactions” section of the Prospectus.

As the individual lease agreements under the Original Leasing Framework Agreement will expire on 31 December 2023, in order to regulate the continuing connected transactions between the Group and Morimatsu Chemical, the Company (for itself and on behalf of its subsidiaries) and Morimatsu Chemical entered into a property leasing framework agreement on 10 November 2023 (the “**New Leasing Framework Agreement**”) for the term of three years from 1 January 2024 to 31 December 2026, subject to the annual caps.

NEW LEASING FRAMEWORK AGREEMENT

The major terms of the New Leasing Framework Agreement are summarized as follows:

Date:	10 November 2023
Parties:	(i) Morimatsu Chemical (as the lessor); and (ii) the Company (for itself and on behalf of its subsidiaries) (as the lessee)
Term:	Three years commencing from 1 January 2024 to 31 December 2026 (the “ Target Term ”), including a fixed term of twelve (12) months immediately after 1 January 2024 (the “ First Year ”). Starting from 1 January 2024, the Original Leasing Framework Agreement will become invalid and be replaced by the New Leasing Framework Agreement.
Subject matter:	Morimatsu Chemical agrees to lease properties at No. 29 Jinwen Road, Zhuqiao Town, Pudong New District, Shanghai, the PRC to the Group for office and production uses from time to time during the term of the New Leasing Framework Agreement.

The Group and Morimatsu Chemical shall enter into Individual Lease Agreement(s), which prescribe specific terms of the leasing arrangements. Such terms shall be in line with the principles and terms of the New Leasing Framework Agreement. If the Group intends to continue the leasing arrangements for the subsequent period of the Target Term after the First Year, the Group will re-negotiate the rents with Morimatsu Chemical within thirty (30) days before the end of the First Year, and enter into new Individual Lease Agreement(s), which shall be subject to the annual caps and in conformity with the terms and conditions contemplated under the New Leasing Framework Agreement.

Pricing Policy:

The rent and other terms under the Individual Lease Agreements shall be determined after arm's length negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity, and shall be no less favourable than those available from Independent Third Parties.

HISTORICAL TRANSACTION AMOUNTS

The following table shows the total rent (tax inclusive) previously paid by the Group to Morimatsu Chemical for the three years ending 31 December 2023 (rounding to the nearest RMB million):

	Years ended 31 December		
	2021	2022	2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
			(unaudited)
Rent	54	48	59

PROPOSED INDIVIDUAL LEASE AGREEMENT FOR 2024

The following table sets out details of the proposed individual lease agreement for 2024 under the New Leasing Framework Agreement:

Lessee	Commencement date of lease	Term	Leaseable area	Monthly rental (including tax and utilities)	Use of property
Morimatsu (China) Investment Co., Ltd (森松(中國)投資有限公司)	1 January 2024	One year	828.32 sq.m.	RMB119,178.68	Office
Morimatsu (Jiangsu) Heavy Industry Co., Ltd. (森松(江蘇)重工有限公司)	1 January 2024	One year	31,774.76 sq.m., including: <ul style="list-style-type: none"> • office: 6,133.51 sq.m. • production workshop: 25,641.25 sq.m. 	RMB2,727,120.95	Office and production
Shanghai Morimatsu Pharmaceutical Equipment Engineering Co., Ltd (上海森松製藥設備工程有限公司)	1 January 2024	One year	24,148.11 sq.m., including: <ul style="list-style-type: none"> • office: 5,110.15 sq.m. • production workshop: 19,037.96 sq.m. 	RMB2,104,839.22	Office and production
Total	—	—	56,751.19 sq.m.	RMB4,951,138.85	—

PROPOSED ANNUAL CAPS

The following table shows the proposed annual caps for the three years ending 31 December 2026, which represent the total rent (tax inclusive) in respect of the Individual Lease Agreement entered into between the Group and Morimatsu Chemical in each year in accordance with the New Leasing Framework Agreement:

	Years ending 31 December		
	2024 (RMB million)	2025 (RMB million)	2026 (RMB million)
Proposed annual caps	60.0	63.0	66.15

In arriving at the above annual caps, the Directors have considered (i) the monthly rent payable by the Group under the proposed individual lease agreement for 2024; (ii) the prevailing market rates of the properties in the same locality with similar scale and quality, and (iii) the expected renewals of the Individual Lease Agreements with an estimate increase in annual rent of not exceeding 5%.

The independent property valuer of the Company has confirmed that, (i) the rental payable under the New Leasing Framework Agreement and the proposed individual lease agreement for 2024 are fair and reasonable and within the general range of market rental of comparable properties in a similar location prevailing at the commencement of the New Leasing Framework Agreement and the proposed individual lease agreement for 2024; (ii) the New Leasing Framework Agreement and the proposed individual lease agreement for 2024 are on normal commercial terms after arm's length negotiations between the parties with reference to the prevailing market terms and conditions; and (iii) the New Leasing Framework Agreement and the proposed individual lease agreement for 2024 are on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Given the above, the Directors (including the independent non-executive Directors) consider that the above proposed annual caps under the New Leasing Framework Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW LEASING FRAMEWORK AGREEMENT

The Directors (including the independent non-executive Directors) consider that it would be commercially beneficial to the Group to lease the relevant properties from Morimatsu Chemical, as it is expected that the Group can benefit from the well-developed ancillary facilities available at the premises of Morimatsu Chemical, and they will improve the Group's efficiency in operation and management. The Group therefore anticipates that it will continue to lease from Morimatsu Chemical to satisfy the future business needs of the Group from time to time. Furthermore, entering into the framework agreement provides relatively stable rental terms for the Company. Accordingly, the Company and Morimatsu Chemical have entered into the New Leasing Framework Agreement to set out a framework of the terms on which they may renew or enter into certain Individual Lease Agreements.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the New Leasing Framework Agreement and the transactions contemplated thereunder, including the proposed annual caps, are fair and reasonable; and the New Leasing Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

To ensure compliance with the pricing basis under the New Leasing Framework Agreement, the Company adopted the following internal control measures for the Individual Lease Agreements to be entered into under the New Leasing Framework Agreement:

- (i) the relevant operation departments and the management of the Group shall review the proposed rent under the Individual Lease Agreements to ensure that the relevant rent are determined after arm's length negotiation, and that the terms of the Individual Lease Agreements are fair and reasonable, on normal commercial terms and no less favourable to the Group than those available from Independent Third Parties;
- (ii) the internal control and audit department of the Group shall regularly (a) review whether the Individual Lease Agreements have been entered into in accordance with the terms of the New Leasing Framework Agreement; and (b) monitor the amounts under the Individual Lease Agreements to ensure that the proposed annual caps are not exceeded; and
- (iii) the Group shall comply with the requirements of the Listing Rules for the annual reviews by the external auditors and independent non-executive Directors in respect of the continuing connected transactions of the Group.

By implementing the above measures, the Directors (including the independent non-executive Directors) of the Company consider that the Group has appropriate internal control procedures to ensure that the transactions contemplated under the New Leasing Framework Agreement will be conducted on normal commercial terms and in the interests of the Group and the Shareholders as a whole.

INFORMATION OF THE COMPANY AND MORIMATSU CHEMICAL

The Company is a company incorporated in Hong Kong with limited liability. The Group is principally engaged in the design, manufacture, installation, operation and maintenance business, which is mainly applied to the core 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, household chemicals, 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.

Morimatsu Chemical is a company incorporated in the PRC with limited liability, and is principally engaged in the investment holding of the industrial properties located in Shanghai.

IMPLICATIONS OF THE LISTING RULES

Morimatsu Chemical is a subsidiary of Morimatsu Seiki, which in turn is a wholly-owned subsidiary of Morimatsu Holdings, the controlling shareholder of the Company. Pursuant to the Listing Rules, Morimatsu Chemical is a connected person of the Company. Accordingly, pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the New Leasing Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) in respect of the highest proposed annual caps of the New Leasing Framework Agreement is/are more than 0.1% but all of them are less than 5%, the transactions contemplated under the New Leasing Framework Agreement are subject to the reporting, annual review and announcement requirements, but are exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Morimatsu Chemical is an indirect subsidiary of Morimatsu Holdings, which is wholly owned by Mr. Matsuhisa Terumoto, a non-executive Director. Mr. Matsuhisa Terumoto is therefore considered to have a material interest in the transactions contemplated under the New Framework Leasing Agreement and has abstained from voting on the Board resolutions in respect of the New Leasing Framework Agreement. Save as disclosed above, none of the Directors has a material interest in the transaction contemplated under the New Framework Leasing Agreement.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associate(s)”	shall have the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Morimatsu International Holdings Company Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Stock Exchange
“connected person(s)”	shall have the meaning ascribed to it in the Listing Rules
“controlling shareholder(s)”	shall have the meaning ascribed to it in the Listing Rules

“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	an entity or person who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
“Individual Lease Agreement(s)”	individual lease agreements which may be entered into between the Group and Morimatsu Chemical pursuant to the New Leasing Framework Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Morimatsu Chemical”	Shanghai Morimatsu Chemical Equipment Co., Ltd.(上海森松化工成套裝備有限公司), a company incorporated in the PRC with limited liability, an associate of the Company’s controlling shareholder
“Morimatsu Holdings”	Morimatsu Holdings Co., Ltd. (森松ホールディングス株式會社), formerly known as Morimatsu Industry Co., Ltd. (森松工業株式會社), a company incorporated in Japan with limited liability, and one of the controlling shareholders of the Company
“Morimatsu Seiki”	Shanghai Morimatsu Seiki Co., Ltd. (上海森松精機有限公司), a company incorporated in the PRC with limited liability, and wholly-owned by Morimatsu Holdings
“Original Leasing Framework Agreement”	a property leasing framework agreement entered into between the Company and Morimatsu Chemical on 17 February 2021, which regulated the individual lease agreements entered into between the Company and Morimatsu Chemical during the period between 17 February 2021 and 31 December 2023
“PRC”	the People’s Republic of China, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	the Company’s prospectus dated 15 June 2021

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Shares”	ordinary shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	shall have the meaning ascribed to it in the Listing Rules
“%”	per cent

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

Hong Kong, 10 November 2023

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.