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Channel Micron Holdings Company Limited

捷心隆控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

(Stock Code: 2115)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020, RECOMMENDATION FOR DECLARATION OF FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

FINANCIAL HIGHLIGHTS

The financial highlights of the Group during the year ended 31 December 2020 (“**FY2020**” or the “**Year**”) together with the comparative figures for the corresponding previous financial year are set out as follows:

	For the year ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Revenue	203,629	206,169	(1.2%)
Gross profit	72,165	80,755	(10.6%)
Profit for the year	10,600	25,929	(59.1%)
Adjusted profit for the year (<i>Note 1</i>)	26,716	37,373	(28.5%)
	RMB cents	RMB cents	
Earnings per share			
Basic and diluted	0.93	1.73	
Gross profit margin	35.4%	39.2%	
Net profit margin	5.2%	12.6%	
Adjusted net profit margin (<i>Note 1</i>)	13.1%	18.1%	

Note 1: The terms of adjusted profit for the year and adjusted net profit margin are not defined under HKFRSs. Adjusted profit for the year is calculated by profit for the year excluding listing expenses, whereas adjusted net profit margin is calculated by dividing adjusted profit for the year by revenue.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Channel Micron Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
Revenue	3	203,629	206,169
Cost of sales		<u>(131,464)</u>	<u>(125,414)</u>
Gross profit		72,165	80,755
Other income	4	2,540	1,919
Other gains and losses	5	139	939
Selling and distribution costs		(7,914)	(9,021)
Administrative and other operating expenses		(26,943)	(23,376)
Research and development expenses		(6,275)	(6,240)
Listing expenses		(16,116)	(11,444)
Finance costs		<u>(898)</u>	<u>(684)</u>
Profit before income tax	6	16,698	32,848
Income tax expense	7	<u>(6,098)</u>	<u>(6,919)</u>
Profit for the year		<u>10,600</u>	<u>25,929</u>
Other comprehensive (expense)/income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
(Deficit)/Surplus on revaluation of freehold land and building held for own use		(1,282)	543
Deferred tax arising from revaluation of freehold land and building		<u>110</u>	<u>(642)</u>
		(1,172)	(99)
<i>Item that will be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(5,036)</u>	<u>1,732</u>
Other comprehensive (expense)/income for the year, net of tax		<u>(6,208)</u>	<u>1,633</u>
Total comprehensive income for the year		<u>4,392</u>	<u>27,562</u>

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year attributable to:			
Equity holders of the Company		10,523	18,184
Non-controlling interests		77	7,745
		<u>10,600</u>	<u>25,929</u>
Total comprehensive income for the year attributable to:			
Equity holders of the Company		4,315	19,790
Non-controlling interests		77	7,772
		<u>4,392</u>	<u>27,562</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share for profit attributable to equity holders of the Company			
Basic and diluted	9	<u>0.93</u>	<u>1.73</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		32,567	34,556
Deferred tax assets		3,436	3,071
		36,003	37,627
Current assets			
Inventories		20,722	9,621
Trade and other receivables	<i>10</i>	70,027	70,242
Contract assets	<i>11</i>	55,392	48,849
Amount due from related party		5	12
Income tax recoverable		2,338	4,962
Financial assets at fair value through profit or loss ("FVTPL")		–	9,000
Pledged bank deposits		1,954	622
Cash and cash equivalents		118,683	34,621
		269,121	177,929
Current liabilities			
Trade and other payables	<i>12</i>	60,492	46,215
Contract liabilities	<i>11</i>	6,374	4,441
Amounts due to related parties		28	26
Lease liabilities		1,905	1,629
Borrowings	<i>13</i>	22,852	14,675
Income tax payable		2,234	1,924
		93,885	68,910
Net current assets		175,236	109,019
Total assets less current liabilities		211,239	146,646
Non-current liabilities			
Lease liabilities		1,068	1,473
Deferred tax liabilities		2,612	3,272
		3,680	4,745
Net assets		207,559	141,901

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
EQUITY			
Share capital	<i>14</i>	12,152	89
Reserves		194,850	141,156
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Equity attributable to equity holders of the Company		207,002	141,245
Non-controlling interests		557	656
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Total equity		207,559	141,901
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION AND BASIS OF PRESENTATION AND REORGANISATION

1.1 General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Lot P.T. 14274, Jalan SU8, Persiaran Tengku Ampuan, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia.

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in the provision of cleanroom wall and ceiling systems and cleanroom equipment in the People's Republic of China (the “**PRC**”) and Southeast Asia.

The ultimate controlling parties of the Group are Ng Yew Sum, Francis Chia Mong Tet, Chang Chin Sia, Ng Boon Hock, Chin Sze Kee, Law Eng Hock, Yap Chui Fan, Lim Kai Seng, Loh Wei Loon and Phang Chee Kin (collectively referred to as the “**Controlling Shareholders**”).

The Company and its subsidiaries now comprising the Group underwent a group reorganisation (the “**Reorganisation**”) as set out in paragraphs headed “Reorganisation” in the section headed “History and Development” to the prospectus dated 22 September 2020. The Reorganisation was completed on 19 August 2019.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 15 October 2020.

1.2 Basis of presentation and reorganisation

Pursuant to the Reorganisation as more fully explained in the paragraphs headed “Reorganisation” in the section headed “History and Development” to the prospectus dated 22 September 2020, the Company became the holding company of the companies now comprising the Group on 19 August 2019. During the Reorganisation period, Channel Systems Asia Sdn. Bhd. (“**Channel Systems (Asia)**”), Channel Systems (Shanghai) Co. Ltd. (“**Channel Systems (Shanghai)**”) and Micron (M) Sdn. Bhd. (“**Micron (M)**”) were controlled by the Controlling Shareholders.

Pursuant to the Reorganisation, which was completed by interspersing the Company, Channel Micron International Limited and Channel Systems International Limited between Channel Systems (Asia), Channel Systems (Shanghai) and Micron (M) and the Controlling Shareholders, the Company became the holding company of the companies now comprising the Group on 19 August 2019. The Group is under the common control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2019 which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared using the merger basis of accounting as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the year ended 31 December 2019, or since their respective dates of incorporation and/or establishment, whichever was shorter.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

2. ADOPTION OF NEW AND AMENDED HKFRSs

2.1 Amended HKFRSs that are effective for annual periods beginning or after 1 January 2020

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which are relevant to the Group’s operations and effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

In addition, on 1 January 2020, the Group has early applied the Amendments to HKFRS 16 “Covid-19-Related Rent Concessions” which will be effective for the Group for financial year beginning on or after 1 June 2020.

Other than as noted below, the adoption of the amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Amendments to HKFRS 16 “Covid-19-Related Rent Concessions”

Amendments to HKFRS 16 only apply to lessee accounting and have no effect on lessor accounting. The amendments provide a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 (“**COVID-19-Related Rent Concessions**”) are lease modification and, instead, account for those rent concessions as if they were not lease modifications.

The practical expedient is only applicable to COVID-19-Related Rent Concessions and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- (c) there is no substantive change to other terms and conditions of the lease.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-Related Rent Concessions granted to the Group during the year.

Consequently, rent concessions received have been recognised in “Other income” in profit or loss in the period in which the event or condition that triggers those payments occurred.

2.2 Issued but not yet effective HKFRSs

At the date of authorisation of the consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts and related amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁵
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination ⁵

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ Effective date not yet determined

⁵ Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors anticipate that all of the pronouncements will be adopted in the Group’s accounting policy for the first period beginning on or after the effective date of the pronouncement. The new and amended HKFRSs are not expected to have a material impact on the Group’s consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

3.1 Revenue

Revenue represents the fair value of consideration received and receivable from the sales of goods and the cleanroom projects by the Group to external customers.

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods or services over time and at a point in time were analysed as follows:

	2020 RMB'000	2019 RMB'000
Timing of revenue recognised over time		
— Cleanroom projects	134,855	142,736
Timing of revenue recognised at a point in time		
— Sales of goods	68,774	63,433
	<u>203,629</u>	<u>206,169</u>

3.2 Segment information

Revenue and expense are allocated to the reportable segments with reference to revenue generated by those segments and the expense incurred by those segments. The measure used for reporting segment profit is gross profit. The Group's other income and expense items, such as administrative and other operating expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, depreciation and amortisation, interest income and interest expense is presented.

Information regarding the Group's reportable segments as provided to the chief operating decision maker for the purpose of resources allocation and assessment of segment performance for the year ended 31 December 2020 is as follows:

	Cleanroom wall and ceiling systems RMB'000	Cleanroom equipment RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2020				
Reportable segment revenue	190,505	6,264	6,860	203,629
Reportable segment cost of sales	(123,347)	(5,111)	(3,006)	(131,464)
Reportable segment gross profit	<u>67,158</u>	<u>1,153</u>	<u>3,854</u>	<u>72,165</u>
Year ended 31 December 2019				
Reportable segment revenue	177,258	14,536	14,375	206,169
Reportable segment cost of sales	(106,892)	(9,577)	(8,945)	(125,414)
Reportable segment gross profit	<u>70,366</u>	<u>4,959</u>	<u>5,430</u>	<u>80,755</u>

Geographical information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets.

	2020 RMB'000	2019 <i>RMB'000</i>
Revenue from external customers		
— The PRC (excluding Hong Kong)	123,968	110,947
— Malaysia	29,272	51,504
— Philippines	10,168	25,703
— Singapore	29,885	11,008
— Others	10,336	7,007
	203,629	206,169
	2020 RMB'000	2019 <i>RMB'000</i>
Specified non-current assets		
— The PRC (excluding Hong Kong)	3,213	4,278
— Malaysia	29,277	30,195
— Others	77	83
	32,567	34,556

Information about major customers

Revenue from customers which individually contributed over 10% of the Group's revenue during the year ended 31 December 2020 is as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Customer 1	34,793	41,310
Customer 2	N/A *	34,405
Customer 3	N/A *	27,564
Customer 4	21,746	—

* The corresponding revenue did not individually contribute over 10% of the Group's revenue during the year ended 31 December 2020.

Note: All the revenue contributed from the above customers are derived from cleanroom wall and ceiling systems segment.

4. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Bank interest income	298	811
Government grants (<i>note a</i>)	1,259	596
COVID-19-related rent concessions received (<i>note b</i>)	237	–
Sundry income	746	512
	<u>2,540</u>	<u>1,919</u>

Notes:

- (a) Subsidies have been received from the provincial governments in the PRC for subsidizing the Group's operations. There were no unfulfilled conditions or contingencies relating to these subsidies.
- (b) As disclosed in note 2.1, the Group has early adopted Amendments to HKFRS 16 "Covid-19-Related Rent Concessions" and applies the practical expedients introduced by the amendments to all eligible rent concessions received by the Group during the year.

5. OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Gains on disposal of property, plant and equipment, net	–	175
Exchange gains, net	139	764
	<u>139</u>	<u>939</u>

6. PROFIT BEFORE INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Auditors' remuneration	890	212
Cost of inventories recognised as an expense, including	78,024	82,783
— write-down of inventories to net realisable value, net	498	187
Depreciation of property, plant and equipment on:		
— owned assets	1,106	1,010
— right-of-use assets	2,104	1,798
Credit losses of trade receivables, net	3,068	753
Credit losses of other receivables	–	7
Credit losses of contract assets, net	848	1,031
COVID-19-related rent concessions received	(237)	–
Gains on disposal of property, plant and equipment, net	–	(175)
Research and development expenses (including staff costs)	6,275	6,240
Short-term leases charges	365	142
Exchange gains, net	(139)	(764)

7. INCOME TAX EXPENSE

Cayman Islands Income Tax

Pursuant to the relevant laws and regulations of the Cayman Islands, the Company is not subject to Cayman Islands Income Tax.

Malaysian Income Tax

Malaysian Income Tax in respect of the Group's operations in Malaysia has been provided at the rate of 24% (2019: 24%) on the estimated assessable profit for the year ended 31 December 2020 arising from Malaysia.

The group entities in Malaysia with paid up capital not more than RM2,500,000 can enjoy lower corporate income tax rate of 17% on the first RM500,000 chargeable income for the year ended 31 December 2019.

Philippines Income Tax

Philippines Income Tax in respect of the Group's operations in Philippines has been provided at the rate of 30% (2019: 30%) on the estimated assessable profit. Starting from the fourth taxable year after the year the business operations commenced, entities incorporated in the Philippines which are subject to the regular corporate income tax are required to pay 2% minimum corporate income tax on gross income or tax equivalent to 30% regular corporate income tax on taxable income, whichever is higher. Gross income is equivalent to revenue less direct costs. Any excess of the minimum corporate income tax over regular corporate income tax can be carried forward and credited against regular corporate income tax for three succeeding taxable years.

PRC Enterprise Income Tax (the "PRC EIT")

The PRC EIT in respect of the Group's operations in the PRC has been provided at the rate of 25% (2019: 25%) on the estimated assessable profit for the year ended 31 December 2020 arising from the PRC.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries obtained the High and New Technology Enterprises qualification. Accordingly, they entitled to a preferential income tax rate of 15% (2019: 15%) on its estimated assessable profit during the year ended 31 December 2020.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, one of the Group's PRC subsidiaries entitled to a tax preferential income tax rate of 10% (2019: 10%) on its estimated assessable profit during the year ended 31 December 2020.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, one of the Group's PRC subsidiaries engaging in research and development activities is entitled to claim 175% (2019: 175%) for the year ended 31 December 2020 of its research and development expenses so incurred as tax deductible expenses when determining its assessable profit for the year ended 31 December 2020 ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's PRC subsidiary in ascertaining its assessable profit for the years ended 31 December 2020 and 2019.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
The PRC EIT		
— Current year	1,321	2,290
— Under-provision in respect of prior years	16	—
Malaysian Income Tax		
— Current year	4,907	5,495
— Under/(Over)-provision in respect of prior years	122	(233)
Philippines Income Tax		
— Current year	409	364
— Under-provision in respect of prior years	200	—
	6,975	7,916
Deferred tax		
— Current year	(934)	(938)
— Under/(Over)-provision in respect of prior years	57	(68)
— Effect on changes in tax rate	—	9
	(877)	(997)
Income tax expense	6,098	6,919

8. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividends to equity holders	15,000	17,678
Dividends to non-controlling interests	176	7,706
	15,176	25,384

During the year ended 31 December 2019, dividend had been declared and paid by the subsidiaries now comprising the Group prior to the Reorganisation.

Pursuant to a written resolution passed by the directors of the Company on 9 July 2020, a final dividend of RMB1.5 per share in respect of the year ended 31 December 2019 has been declared and paid.

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits for the year ended 31 December 2020.

9. EARNINGS PER SHARE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	<u>10,523</u>	<u>18,184</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share (in thousands)	<u>1,125,546</u>	<u>1,050,000</u>

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2020 includes (i) 10,000,000 ordinary shares in issue throughout the year; (ii) 1,040,000,000 new ordinary shares issued pursuant to the Capitalisation Issue (note 14f), as if all these shares had been in issue throughout the year ended 31 December 2020; and (iii) 75,546,000 shares, representing the weighted average of 350,000,000 new ordinary shares issued pursuant to the Global Offering (note 14e).

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2019 has been adjusted retrospectively for the effect of the Capitalisation Issue subsequent to the end of the reporting period as if the Capitalisation Issue had been effective on 1 January 2019.

Diluted earnings per share for both years are the same as basic earnings per share as there were no potential ordinary shares in issue during both years.

10. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	59,853	56,943
Less: Expected credit losses (“ECL”) allowance	<u>(6,287)</u>	<u>(3,281)</u>
	53,566	53,662
Bill receivables	<u>4,500</u>	<u>1,856</u>
	<u>58,066</u>	<u>55,518</u>
Other receivables		
— Prepayments	5,649	1,608
— Prepaid listing expenses	—	4,030
— Other tax receivables	4,643	4,358
— Other receivables	324	4,406
— Rental and other deposits	<u>1,377</u>	<u>354</u>
	11,993	14,756
Less: ECL allowance	<u>(32)</u>	<u>(32)</u>
	<u>11,961</u>	<u>14,724</u>
	<u>70,027</u>	<u>70,242</u>

All bill receivables are due within one year.

The credit period is generally for a period of 0 to 90 days (2019: 0 to 90 days). Based on the invoice dates, the ageing analysis of trade receivables, net of ECL allowance, was as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
0–90 days	45,977	46,098
91–180 days	3,795	4,519
181–365 days	2,018	2,328
Over 365 days	1,776	717
	53,566	53,662

11. CONTRACT ASSETS AND CONTRACT LIABILITIES

11.1 Contract assets

	2020 RMB'000	2019 <i>RMB'000</i>
Contract assets arising from		
— Cleanroom projects	55,242	50,427
— Sales of goods	2,908	291
Less: ECL allowance	(2,758)	(1,869)
	55,392	48,849

11.2 Contract liabilities

	2020 RMB'000	2019 <i>RMB'000</i>
Contract liabilities arising from		
— Cleanroom projects from billings in advance of performance	4,782	4,297
— Receiving deposits of manufacturing orders	1,592	144
	6,374	4,441

12. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	50,282	35,718
Bill payables	2,000	—
	<u>52,282</u>	<u>35,718</u>
Other payables		
— Accrued expenses	4,544	7,342
— Other tax payables	437	641
— Other payables	3,229	2,514
	<u>8,210</u>	<u>10,497</u>
	<u>60,492</u>	<u>46,215</u>

The Group was granted by its supplier credit periods ranging from 30 to 90 days (2019: 30 to 90 days). Based on the invoice dates, the ageing analysis of trade payables were as follows:

	2020 RMB'000	2019 RMB'000
0–90 days	41,177	31,571
91–180 days	5,586	1,756
181–365 days	869	715
Over 365 days	2,650	1,676
	<u>50,282</u>	<u>35,718</u>

13. BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank loans, wholly repayable within one year or on demand		
— Secured	13,852	14,675
— Unsecured	9,000	—
	<u>22,852</u>	<u>14,675</u>

As at 31 December 2020, the bank loans bear effective interest rates of range from 3.8% to 4.7% (2019: 4.7%), per annum.

As at 31 December 2020, the Group's bank loan of RMB13,852,000 (2019: RMB14,675,000) was guaranteed by the personal guarantees given by Ng Yew Sum, Chin Sze Kee and Law Eng Hock, the Controlling Shareholders of the Company (the “**Personal Guarantees**”) and secured by the legal charges over the Group's freehold land and building. The Group is in the process of negotiating with the bank for release of the Personal Guarantees.

14. SHARE CAPITAL

	The Company			
	Number of shares			
	HK\$0.1 per share	HK\$0.01 per share	Total	RMB'000
Authorised: Ordinary shares				
Upon incorporation (note a)	3,800,000	–	3,800,000	335
Share subdivision (note c)	(3,800,000)	38,000,000	34,200,000	–
As at 31 December 2019 and 1 January 2020	–	38,000,000	38,000,000	335
Increase in authorised share capital (note d)	–	9,962,000,000	9,962,000,000	86,438
As at 31 December 2020	–	10,000,000,000	10,000,000,000	86,773
Issued and fully paid: Ordinary shares				
Upon incorporation (note a)	10	–	10	–*
Issuance of share capital (note b)	999,990	–	999,990	89
Share subdivision (note c)	(1,000,000)	10,000,000	9,000,000	–
As at 31 December 2019 and 1 January 2020	–	10,000,000	10,000,000	89
Issuance of share capital pursuant to the Global Offering (note e)	–	350,000,000	350,000,000	3,038
Issuance of share capital pursuant to the Capitalisation Issue (note f)	–	1,040,000,000	1,040,000,000	9,025
As at 31 December 2020	–	1,400,000,000	1,400,000,000	12,152

* The balance represented an amount less than RMB1,000.

Notes:

- (a) The Company was incorporated on 11 June 2019 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each and has not carried on any business since the date of incorporation except for the Reorganisation. On the date of incorporation, 10 paid shares were allotted and issued at par.
- (b) On 5 July 2019 and 21 August 2019, as part of the Reorganisation, the Company allotted and issued 604,702 and 395,288 ordinary shares, credited as fully paid, respectively to the Controlling Shareholders and the then shareholders.
- (c) Pursuant to an ordinary resolution on 24 October 2019, every authorised and issued ordinary share of HK\$0.1 each was subdivided into 10 ordinary shares of HK\$0.01 each. The authorised share capital of the Company became HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and the issued share capital became HK\$100,000 divided into 10,000,000 shares.
- (d) Pursuant to the written resolution of the shareholders passed on 3 September 2020, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by creation of an additional 9,962,000,000 shares of HK\$0.01 each.
- (e) On 14 October 2020, 350,000,000 shares of HK\$0.01 each of the Company were allotted and issued at a price of HK\$0.36 per share by way of public offering (the “**Global Offering**”).

The proceeds of HK\$3,500,000 (equivalent to approximately RMB3,038,000) represents the par value of the shares of the Company, were credited to the Company’s share capital. The remaining proceeds of HK\$122,500,000 (equivalent to approximately RMB106,303,000), before issuing expenses, were credited to the Company’s share premium account. The share allotted and issued rank pari passu in all respects with the existing issued shares.

- (f) Pursuant to the written resolution of the shareholders passed on 3 September 2020, subject to the share premium account of the Company being credited as a result of the Global Offering, the directors were authorised to allot and issue a total of 1,040,000,000 shares credited as fully paid at par to the shareholders whose names appear on the register of members of the Company at close of business on 7 October 2020 in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$10,400,000 (equivalent to approximately RMB9,025,000) standing to the credit of the share premium account of the Company (the “**Capitalisation Issue**”). The Capitalisation Issue was completed on 15 October 2020. The share allotted and issued rank pari passu in all respects with the existing issued shares.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Beginning early 2020, the global outbreak of COVID-19 has caused disruption to the economy and business activities around the globe. Inevitably, the Group's principal business operations located in the PRC, Malaysia and Philippines have also experienced various degrees of impact.

During FY2020, the Group's operation in the PRC was almost completely halted in February 2020 and gradually resumed after February 2020. Subsequently, the Group suspended all Malaysian operations from 18 March 2020 until 3 May 2020. The Group also suspended its Philippines operations from 15 March 2020 and fully resumed the operations on 1 June 2020. Save for the aforementioned periods, the Group's operations in the PRC, Malaysia and Philippines have not experienced any suspension during FY2020 and from 1 January 2021 until the date of this announcement. Notwithstanding the foregoing, the Group may be subject to further suspension of business operations and projects should the outbreak of COVID-19 continue to spur and the governments impose even more stringent measures to curb the spread of the virus.

During FY2020, the Group's projects and contracts were subject to different degree of delays due to delay in resumption of business operations, lockdown measures and restrictions on transportation. However, none of the Group's customers have indicated they would penalise the Group for such delays and the Group has been communicating with its customers from time to time to agree on the completion schedules of the on-going projects according to the prevailing market conditions and latest project development. In terms of the Group's supply chain, additional lead time was caused by the lockdown measures and thus the Group has been placing orders in advance. For the delay in major projects which occurred prior to the listing of the Company's shares (the "**Shares**") on the Stock Exchange (the "**Listing**"), please refer to the detailed disclosure in the "Summary" and "Business" sections of the prospectus dated 22 September 2020. From the date of Listing until 31 December 2020, we have experienced further delays on (i) two cleanroom projects for semiconductor product manufacturing facilities in Chongqing, the PRC, and Shaoxing, the PRC, respectively. Both projects experienced delays in installation progress as a result of the delay in construction progress of the project sites due to the quarantine requirements imposed by the PRC government. As a result, approximately RMB6.6 million of the revenue which should have been recognised in FY2020 were delayed and expected to be recognised as revenue in the year ending 31 December 2021; and (ii) the cleanroom project for a mega data centre facility in Singapore. Such project experienced delays in delivery schedule as a result of the preventive measures imposed by the main contractor of the project site to minimise infection of COVID-19. As a result, approximately RMB14.7 million of the revenue which should have been recognised in FY2020 were delayed and expected to be recognised as revenue in the year ending 31 December 2021. As at the date of this announcement, the progress of the above projects have resumed to normal. The cleanroom project in Chongqing, the PRC is currently expected to be completed in June 2021, which represents a delay of 3 months as compared to the original schedule. The cleanroom project in Shaoxing, the PRC is currently expected to be completed in May 2021, which represents a delay of 6 months as compared to the original schedule. The cleanroom project for a mega data centre facility in Singapore is currently expected to be completed in December 2021, which represents a delay of 6 months as compared to the original schedule.

Furthermore, tenders and quotations for certain potential contracts and projects were also delayed due to the outbreak of COVID-19 during FY2020 as lockdown measures have disrupted the business operations of the customers and the overall progress of the facility construction, to which the Group's cleanroom system forms part of. For instance, the tender process of a cleanroom project for a semiconductor product manufacturing facility in Guangzhou, the PRC was delayed to 2021 due to the COVID-19 pandemic, while the tender/quotation process of two cleanroom equipment contracts for a semiconductor manufacturing facility in Laguna, Philippines, and a semiconductor manufacturing facility in Metro Manila, Philippines, did not commence in FY2020 as expected due to the outbreak of COVID-19 and the Group currently expects the tender/quotation process for these two projects to commence in the first half of 2021.

Despite the COVID-19 pandemic, the Group's revenue from the PRC and Singapore was able to record growth of 11.7% and 171.5% respectively for FY2020 as compared to that for the year ended 31 December 2019 ("**FY2019**") as a result of the growth in cleanroom wall and ceiling systems segment. However, the Group's overall revenue remained relatively stable as compared to FY2019 as the revenue growth from the PRC and Singapore markets is offset by the decrease in revenue in Malaysia and Philippines markets. The Group's gross profit margin for FY2020 decreased mainly as a result of the reduction in operation efficiency during the outbreak of COVID-19 and lower margin in securing major projects in competitive market environment. Despite the slow-down of the Group's cash inflow during the outbreak of COVID-19 due to the delay in payment and delay in projects and contracts, the Group has not experienced any major settlement issue from its customers and has maintained sufficient working capital for its business operations.

In view of the contract and project delays, the Group incurred additional expenses for manpower and man-hour to offset the impact of the delay. In addition, employees who travel to other provinces in the PRC or countries and areas with high alert of COVID-19 cases would be subject to compulsory self-quarantine for 14 days, during which they may not be able to fully discharge their business duties but would continue to be remunerated. As such, the Group incurred additional costs of approximately RMB0.6 million as extra labour costs. Furthermore, due to the heightened hygiene and preventive measures undertaken by the Group in response to the outbreak of COVID-19, additional costs of approximately RMB0.3 million was incurred.

OUTLOOK

In the near term, cleanroom facility owners will continue to remain cautious about their investment plans and may choose to delay their projects in view of the uncertain market condition due to the COVID-19 pandemic. In fact, some of the Group's contracts on hand should have commenced in 2020 based on the original schedule but were eventually awarded to the Group in early 2021 instead as the facility owners decided to delay or slowdown the projects. The Group expects the global economic uncertainty caused by the outbreak of COVID-19 will continue throughout 2021.

Nonetheless, the Group expects that the market uncertainty caused by COVID-19 will gradually diminish in the second half of 2021 with the improvement in the COVID-19 pandemic. The PRC market will remain as the major market of the Group in 2021. Looking forward, in light of the uncertain economic and market conditions, the Group will continue to take actions to control costs and increase efficiency to maintain profitability and competitiveness in the market. The Group will also continue to strengthen its competitive advantages and brand name to increase market share in the industry.

In the medium to long-term, the Group remains cautiously optimistic about its business and believes that it will bring satisfactory and sustainable returns to the shareholders of the Company (the “Shareholders”).

FINANCIAL REVIEW

REVENUE

Revenue by business segment

The following table sets forth a breakdown of the revenue of the Group by business segment.

	For the year ended 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Cleanroom wall and ceiling systems	190,505	93.5	177,258	86.0
Cleanroom equipment	6,264	3.1	14,536	7.0
Others	6,860	3.4	14,375	7.0
Total	203,629	100.0	206,169	100.0

Cleanroom wall and ceiling systems

Revenue from cleanroom wall and ceiling systems for FY2020 increased by RMB13.2 million or 7.5% as compared to FY2019. The sales for cleanroom wall and ceiling systems in the PRC increased by approximately RMB13.0 million, whereas the sales for cleanroom wall and ceiling systems from the Southeast Asia remained relatively stable for FY2020 as compared to FY2019. The Group was able to record higher sales in the PRC in FY2020 despite the adverse impact from the COVID-19 pandemic mainly because the demand for the cleanroom wall and ceiling systems of the Group in the PRC remained stable. Although progress of some of the projects were delayed due to the COVID-19 pandemic, the Group was able to catch up some of the lost progress of the projects during FY2020 as a result of the PRC's early success in containing the spread of COVID-19.

The more sizable contracts we undertook in FY2020 included:

- (a) a contract to supply cleanroom wall and ceiling systems products for the construction of a mega data centre facility in Singapore, from which revenue generated for FY2020 amounted to RMB21.7 million, representing 11.4% of total cleanroom wall and ceiling systems revenue of the Group for FY2020;
- (b) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a semiconductor product manufacturing facility in Shaoxing, the PRC, from which revenue generated for FY2020 amounted to RMB18.9 million, representing 9.9% of total cleanroom wall and ceiling systems revenue of the Group for FY2020;
- (c) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Penang, Malaysia, from which revenue generated for FY2020 amounted to RMB16.9 million, representing 8.9% of total cleanroom wall and ceiling systems revenue of the Group for FY2020;
- (d) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a semiconductor raw material manufacturing facility in Hohhot, the PRC, from which revenue generated for FY2020 amounted to RMB16.1 million, representing 8.5% of total cleanroom wall and ceiling systems revenue of the Group for FY2020;
- (e) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a semiconductor product manufacturing facility in Chongqing, the PRC, from which revenue generated for FY2020 amounted to RMB15.4 million, representing 8.1% of total cleanroom wall and ceiling systems revenue of the Group for FY2020;
- (f) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a testing and assembly facility in Chengdu, the PRC, from which revenue generated for FY2020 amounted to RMB10.9 million, representing 5.7% of total cleanroom wall and ceiling systems revenue of the Group for FY2020; and
- (g) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a semiconductor product manufacturing facility in Wuhan, the PRC, from which revenue generated for FY2020 amounted to RMB9.6 million, representing 5.0% of total cleanroom wall and ceiling systems revenue of the Group for FY2020.

Cleanroom equipment

Revenue from cleanroom equipment for FY2020 decreased by RMB8.3 million or 56.9% as compared to FY2019. Such decrease was mainly due to the delay in orders for cleanroom equipment in the Southeast Asia as a result of various delays in shipment, civil structure construction progress and project progress caused by the COVID-19 pandemic and delay in facility owner's investment decision as a result of the economic uncertainty caused by the COVID-19 pandemic.

Others

The Group also engaged in ancillary business such as trading of cleanroom equipment and components (mainly raised floor systems) and provision of cleanroom preventive maintenance services. Revenue from ancillary business for FY2020 decreased by RMB7.5 million or 52.3% as compared to FY2019. Such decrease was mainly due to cyclical demand as well as the delay in orders for raised floor system in the Southeast Asia as a result of the COVID-19 pandemic.

Revenue by geographical location

The following table sets forth a geographical breakdown of revenue of the Group, based on the locations at which the services were provided or the goods delivered.

	For the year ended 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
The PRC (excluding Hong Kong)	123,968	60.9	110,947	53.8
Malaysia	29,272	14.3	51,504	25.0
Philippines	10,168	5.0	25,703	12.5
Singapore	29,885	14.7	11,008	5.3
Others	10,336	5.1	7,007	3.4
Total	203,629	100.0	206,169	100.0

Revenue from the PRC for FY2020 increased by RMB13.0 million, or 11.7%, as compared to FY2019. Such increase was mainly due to the increase in cleanroom wall and ceiling systems contracts and projects in the PRC as explained above.

Revenue from Malaysia for FY2020 decreased by RMB22.2 million, or 43.2%, as compared to FY2019. Such decrease was mainly due to a sizeable contract in Malaysia, supplying wall and ceiling system products for a new cleanroom facility project, which commenced in July 2019 and was completed in July 2020. The revenue generated from this project in FY2019 and FY2020 amounted to approximately RMB27.5 million and RMB2.5 million, respectively. Excluding the revenue from this project, the revenue from Malaysia slightly increased from RMB24.0 million for FY2019 to RMB26.8 million for FY2020.

Revenue from Singapore for FY2020 increased by RMB18.9 million, or 171.5%, as compared to FY2019. Such increase was mainly because of higher revenue generated from a mega data centre facility project in Singapore.

Revenue from Philippines for FY2020 decreased by RMB15.5 million, or 60.4%, as compared to FY2019. Such decrease was mainly due to the decrease in revenue from cleanroom equipment and ancillary business as explained above.

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth the analysis of gross profit with respective gross profit margins by business segment.

	For the year ended 31 December			
	2020		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%
Cleanroom wall and ceiling systems	67,158	35.3	70,366	39.7
Cleanroom equipment	1,153	18.4	4,959	34.1
Others	3,854	56.2	5,430	37.8
Total	<u>72,165</u>	<u>35.4</u>	<u>80,755</u>	<u>39.2</u>

The overall gross profit margin of cleanroom wall and ceiling systems decreased by 4.4 percentage points as compared to FY2019 mainly due to the decrease in gross profit margin of cleanroom wall and ceiling systems in the PRC as a result of the competitive pricing offered by the Group to secure certain contracts and additional subcontracting expenses incurred due to the quarantine measure imposed by the government of the PRC and the hygiene and preventive measure imposed by the main contractor of the project sites.

Gross profit margin of cleanroom equipment decreased by 15.7 percentage points as compared to FY2019. The significant decrease in gross profit margin was mainly due to the fact that the Group recorded a substantially lower revenue for FY2020 as compared to the revenue for FY2019 and suffered a lower operational efficiency, which adversely impacted the gross profit margin.

Gross profit margin of ancillary business increased by 18.4 percentage points as compared to FY2019. The significant increase in gross profit margin was mainly attributable to the higher gross profit margin generated from certain contracts for the ancillary business in Philippines.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs decreased by 12.3% to RMB7.9 million (2019: RMB9.0 million) with its percentage of revenue decreasing to 3.9% (2019: 4.4%), which was mainly due to the decrease in marketing and travelling expenses and bonuses to marketing staff.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses increased by 15.3% to RMB26.9 million (2019: RMB23.4 million), primarily attributable to the increase in withholding tax expense of RMB2.5 million mainly due to the withholding tax payable on the dividend distribution of a PRC subsidiary of the Group prior to the Listing, and the increase in expected credit losses of RMB2.1 million, offset by the decrease in staff costs of RMB2.7 million mainly due to the decrease in directors' emoluments. For the expected credit loss assessment, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment. Due to the impact of the COVID-19 pandemic, the default rate was higher than last year, which resulted in an increase in provision for expected credit loss in FY2020.

INCOME TAX EXPENSE

Income tax expense was RMB6.1 million for FY2020 (2019: RMB6.9 million). The increase in effective tax rate, representing income tax expense divided by profit before income tax, from 21.1% for FY2019 to 36.5% for FY2020, was mainly due to the increase in expenses not deductible for tax purposes in the Group's subsidiaries in Malaysia including the listing expenses.

PROFIT FOR THE YEAR

As a result of the above and in particular, the decrease in gross profit margin for FY2020 by 3.8 percentage points and the increase in listing expenses from approximately RMB11.4 million for FY2019 to approximately RMB16.1 million for FY2020, net profit decreased by 59.1% to RMB10.6 million (2019: RMB25.9 million). Net profit margin decreased from 12.6% for FY2019 to 5.2% for FY2020.

Adjusted profit for the year

Adjusted profit for the year is not a financial measure under the HKFRSs and is presented to provide information for evaluation and comparison of the financial results of the Group. Although the financial measures are reconcilable to the line items in the consolidated financial statements, they should not be considered measures comparable to items in the consolidated financial statements in accordance with the HKFRSs. These measures may not be comparable to other similarly titled measures used by other companies. Adjusted profit for the year of the Group amounted to RMB26.7 million for FY2020, representing a decrease of 28.5% as compared to that of RMB37.4 million for FY2019. Such decrease was primary attributable to the decrease in gross profit margin as explained above.

	For the year ended	
	31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	10,600	25,929
Add: Listing expenses	16,116	11,444
	<hr/>	<hr/>
Adjusted profit for the year	26,716	37,373
	<hr/>	<hr/>

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment amounted to RMB32.6 million and RMB34.6 million as at 31 December 2020 and 2019, respectively, and mainly comprised freehold land and building for the production facilities, warehouses and office premises in Malaysia of the Group.

INVENTORIES

Inventories increased from RMB9.6 million as at 31 December 2019 to RMB20.7 million as at 31 December 2020. The increase was mainly attributable to the higher level of raw materials in storage due to the delay in project progress in the Southeast Asia.

TRADE AND OTHER RECEIVABLES

Trade and other receivables remained relatively stable at RMB70.0 million and RMB70.2 million as at 31 December 2020 and 2019, respectively.

CONTRACT ASSETS

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. The Group's contract assets comprised of unbilled revenue and retention receivables. Unbilled revenue arises when revenue had been recognised for the completion of cleanroom construction services that had been approved by the customers (supported by the customer-certified progress reports) or upon delivery of sales of goods but the Group is yet to be entitled to invoice the customers or be unconditionally/contractually entitled to the payment under the terms set out in the contracts. Retention receivables represented the retention monies required by the customers to secure the due performance of the contracts of the Group. Contract assets increased from RMB48.8 million as at 31 December 2019 to RMB55.4 million as at 31 December 2020.

FINANCIAL ASSETS AT FVTPL

Financial assets at FVTPL decreased from RMB9.0 million as at 31 December 2019 to nil as at 31 December 2020. During 2019, the Group subscribed to principal-guaranteed wealth management product for short-term investment. As at 31 December 2020, the Group no longer had any financial assets at FVTPL.

TRADE AND OTHER PAYABLES

Trade and other payables increased from RMB46.2 million as at 31 December 2019 to RMB60.5 million as at 31 December 2020. The increase was mainly attributable to the bulk purchase of raw material for on-going projects near to the end of the year ended 31 December 2020.

HUMAN RESOURCES

As at 31 December 2020, the total number of full-time employees of the Group was 169 (2019: 162). The remuneration of employees was determined according to their experience, qualifications, result of operations of the Group and market condition. We offer senior management performance-based bonus schemes to reward and retain a high caliber management team.

In determining the remuneration of the Directors, the Board will make reference to the proposal of the remuneration committee of the Company, taking into account, among others, their respective duties and responsibilities, individual performance and the prevailing market conditions.

During the year, staff costs including Directors' emoluments amounted to RMB24.3 million (2019: RMB26.9 million), representing 11.9% of the Group's revenue (2019: 13.0%). The decrease of staff cost was mainly due to the decrease in directors' emoluments.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

Cash and cash equivalents increased from RMB34.6 million as at 31 December 2019 to RMB118.7 million as at 31 December 2020. The increase is mainly due to the proceeds from the Listing of HK\$54.7 million. Most of the cash and cash equivalents were denominated in Hong Kong Dollars, Malaysian Ringgit and Renminbi.

As at 31 December 2020, borrowings amounted to RMB22.9 million (2019: RMB14.7 million) with effective interest rates of range from 3.8% to 4.7% (2019: 4.7%), per annum. The increase is mainly due to the new bank loans in the PRC for working capital purposes.

The gearing ratio, which was calculated on the basis of bank borrowings and lease liabilities divided by total equity, was 0.12 (2019: 0.13).

CAPITAL EXPENDITURE AND COMMITMENTS

During the Year, total investment in property, plant and equipment was RMB3.9 million (2019: RMB2.1 million), in which 51.5% was mainly used for the acquisition of right-of-use assets in relation to the lease of additional warehouse in Malaysia with a gross floor area of 1,700 sq.m. and 43.1% was used for purchasing additional production equipments.

As at 31 December 2020, the Group had no contracted capital commitments.

CAPITAL STRUCTURE

As at the date of this announcement, the issued share capital of the Company was HK\$14.0 million, comprising 1,400,000,000 Shares of nominal value of HK\$0.01 per Share.

SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Group held no major investment.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

EVENTS AFTER THE REPORTING PERIOD

On 26 February 2021, the Company decided not to proceed with the land offer (the “**Land Offer**”) submitted by Channel Systems Asia Sdn. Bhd., a wholly-owned subsidiary of the Company, as the parties could not reach an agreement regarding the terms of the sale and purchase agreement to be entered into. As at the date of this announcement, the Company had received the refund of the deposit of RM522,860 (equivalent to approximately HK\$993,400) paid upon submission of the Land Offer. For details, please refer to the Company’s announcements dated 18 November 2020, 20 November 2020 and 1 March 2021, respectively.

Saved as disclosed above, there were no other significant events after the reporting period up to the date of this announcement.

CHARGES ON THE GROUP’S ASSETS

RMB2.0 million of the Group’s bank deposits were pledged for the purpose of the performance, retention monies and advance payment guarantee in respect of the cleanroom projects.

RMB13.9 million of the Group’s borrowings from a bank listed on the Malaysian Stock Exchange in Malaysia (the “**Bank**”) was guaranteed by the Personal Guarantees and secured by the legal charges over the Group’s freehold land and building with the aggregate carrying amount of RMB24.6 million. Prior to the Listing, the Bank indicated that they had no objection to releasing and replacing the personal guarantees by corporate guarantee of the Company. After the Listing and as at the date of this announcement, the Group has been providing supplemental information as requested by the Bank to facilitate the process.

Other than the above, as at 31 December 2020, none of the assets of the Group were pledged.

FOREIGN EXCHANGE EXPOSURE

The Group’s reporting currency is RMB, and the Group is exposed to translational foreign currency risks primarily as a result of revenue that is denominated in foreign currencies other than RMB and purchases that are denominated in foreign currencies other than RMB. As such, fluctuations in foreign exchange rates could result in exchange loss. The Directors have assessed the impact of such foreign currency risk and considered that it may materially affect the Group’s profitability. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

During the Year, the Group discounted bill receivable to a bank for raising cash. The maximum exposure to the Group that may result from the default of this endorsed and discounted bill receivable as at 31 December 2020 was RMB3.0 million.

Other than the above, as at 31 December 2020, the Group did not have any contingent liabilities.

FINAL DIVIDEND

The Board has proposed the payment of a final dividend of HK0.36 cents per Share for the year ended 31 December 2020 to the Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 9 June 2021. The final dividend will be paid on or before Wednesday, 23 June 2021, subject to the Shareholders' approval at the annual general meeting of the Company (the "AGM").

CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on Tuesday, 1 June 2021 and for the purpose of determining the Shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 27 May 2021 to Tuesday, 1 June 2021, both dates inclusive, during the period no transfer of the shares will be registered. To qualify for attending and voting at the AGM, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 26 May 2021.

Upon obtaining approval of the Shareholders at the forthcoming AGM, for the purpose of determining the Shareholders' entitlement to the final dividend, the register of members of the Company will be closed from Tuesday, 8 June 2021 to Wednesday, 9 June 2021, both dates inclusive, during the period no transfer of the shares will be registered. To qualify for the proposed final dividend, all properly completed share transfer forms together with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 7 June 2021.

CORPORATE GOVERNANCE

The Board is committed to maintaining high corporate governance standards and plays a major role in the supervision of corporate governance to ensure that the Company maintains a sound governance framework and the long-term sustainable Shareholders' value. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the basis of the Company's corporate governance practices.

The Shares have been listed on the Stock Exchange since 15 October 2020 (the “**Listing Date**”), hence the CG code was not applicable throughout the Year. The Board is of the view that, since the Listing Date and up to the date of this announcement, the Company has fully complied with all the applicable code provisions as set out in the CG Code, except for code provision A.2.1 as set out below.

Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. During the year ended 31 December 2020, the post of chief executive had been vacant and the duties of chief executive were performed by the chairman of the Company, Mr. Ng Yew Sum. The Board considers that the balance of power and authority, accountability and independent decision-making under its present arrangement will not be impaired in light of the diverse background and experience of its three independent non-executive Directors. Further, the audit committee of the Company (the “**Audit Committee**”) comprises exclusively of independent non-executive Directors has free and direct access to the Company’s external auditors and independent professional advisers when it considers necessary. Therefore, the Directors consider that the deviation from Code Provision A.2.1 of the CG Code is appropriate in such circumstance. However, the Board will continue to review the current structure and if a candidate with suitable knowledge, skill and experience is identified, the Board will make an appointment to fill the post of chief executive as appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding their transactions since the Listing Date and up to 31 December 2020.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference which deal clearly with its authority and duties. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Martin Giles Manen, Mr. Ng Seng Leong and Mr. Wu Chun Sing. Mr. Martin Giles Manen is the chairman of the Audit Committee.

The Group’s audited consolidated annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020, and the related notes thereto as set out in this announcement have been agreed by the Group’s auditors, Grant Thornton Hong Kong Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by Grant Thornton Hong Kong Limited 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 Grant Thornton Hong Kong Limited on this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the period commencing from the Listing Date and up to 31 December 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.micron.com.my>) respectively.

The annual report of the Company for the year ended 31 December 2020 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be dispatched to the Shareholders and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our stakeholders and business partners for their ongoing support, and our Directors, management and employees for their dedication and contributions to our progress.

By Order of the Board
Channel Micron Holdings Company Limited
Ng Yew Sum
Chairman and Executive Director

Hong Kong, 30 March 2021

As at the date of this announcement, the Board comprises: (1) Mr. NG Yew Sum (Chairman), Mr. CHIN Sze Kee, Mr. LAW Eng Hock, Mr. LIM Kai Seng and Ms. YAP Chui Fan as the executive Directors; and (2) Mr. NG Seng Leong, Mr. Martin Giles MANEN and Mr. WU Chun Sing as the independent non-executive Directors.